

GearUp has chosen a low-cost strategy focused within the sporting goods category, further focused within the segment of buyers who are interested in special, short-term sales. As the vignette at the start of this chapter indicates, it needs to do everything it can to keep costs down.

Q4 How Does Competitive Strategy Determine Value Chain Structure?

Organizations analyze the structure of their industry, and, using that analysis, they formulate a competitive strategy. They then need to organize and structure the organization to implement that strategy. If, for example, the competitive strategy is to be *cost leader*, like GearUp, then business activities need to be developed to provide essential functions at the lowest possible cost.

A business that selects a *differentiation* strategy would not necessarily structure itself around least-cost activities. Instead, such a business might choose to develop more costly processes, but it would do so only if those processes provided benefits that outweighed their costs. Porter defined **value** as the amount of money that a customer is willing to pay for a resource, product, or service. The difference between the value that an activity generates and the cost of the activity is called the **margin**. A business with a differentiation strategy will add cost to an activity only as long as the activity has a positive margin.

A **value chain** is a network of value-creating activities. That generic chain consists of five **primary activities** and four **support activities**.

Primary Activities in the Value Chain

To understand the essence of the value chain, consider a small manufacturer—say, a bicycle maker (see Figure 3-6). First, the manufacturer acquires raw materials using the inbound logistics activity. This activity concerns the receiving and handling of raw materials and other inputs. The accumulation of those materials adds value in the sense that even a pile of unassembled parts is worth something to some customer. A collection of the parts needed to build a bicycle is worth more than an empty space on a shelf. The value is not only the parts themselves, but also the time required to

Figure 3-6
Bicycle Maker's Value Chain

