

Figure 3-7
Task Descriptions for Primary Activities of the Value Chain

Source: Based on Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (The Free Press, a Division of Simon & Schuster Adult Publishing Group) Copyright © 1985, 1998 by Michael E. Porter.

| Primary Activity | Description |
|--------------------------|---|
| Inbound Logistics | Receiving, storing, and disseminating inputs to the products |
| Operations/Manufacturing | Transforming inputs into the final products |
| Outbound Logistics | Collecting, storing, and physically distributing the products to buyers |
| Sales and Marketing | Inducing buyers to purchase the products and providing a means for them to do so |
| Customer Service | Assisting customers' use of the products and thus maintaining and enhancing the products' value |

contact vendors for those parts, to maintain business relationships with those vendors, to order the parts, to receive the shipment, and so forth. In the operations activity, the bicycle maker transforms raw materials into a finished bicycle, a process that adds more value. Next, the company uses the outbound logistics activity to deliver the finished bicycle to a customer. Of course, there is no customer to send the bicycle to without the marketing and sales value activity. Finally, the service activity provides customer support to the bicycle users. Each stage of this generic chain accumulates costs and adds value to the product. The net result is the total margin of the chain, which is the difference between the total value added and the total costs incurred. Figure 3-7 summarizes the primary activities of the value chain.

Support Activities in the Value Chain

The support activities in the generic value chain contribute indirectly to the production, sale, and service of the product. They include procurement, which consists of the processes of finding vendors, setting up contractual arrangements, and negotiating prices. (This differs from inbound logistics, which is concerned with ordering and receiving in accordance with agreements set up by procurement.) By the way, procurement is a support function for most businesses, but probably not for GearUp. Because GearUp has a new event, possibly with a different vendor, every day, procurement is more of a primary operations function. It still has a support procurement function for items like office desks and chairs, but procurement for items for events is part of its operations. Porter defined technology broadly. It includes research and development, but it also includes other activities within the firm for developing new techniques, methods, and procedures. He defined human resources as recruiting, compensation, evaluation, and training of full-time and part-time employees. Finally, firm infrastructure includes general management, finance, accounting, legal, and government affairs. Supporting functions add value, albeit indirectly, and they also have costs. Hence, as shown in Figure 3-6, supporting activities contribute to a margin. In the case of support-ing activities, it would be difficult to calculate the margin because the specific value added of, say, the manufacturer's lobbyists in Washington, D.C., is difficult to know. But there is a value added, there are costs, and there is a margin, even if it is only in concept.

Value Chain Linkages

Porter's model of business activities includes **linkages**, which are interactions across value activities. For example, manufacturing systems use linkages to reduce inventory costs. Such a system uses sales forecasts to plan production; it then uses the production plan to determine raw materials needs and then uses the material needs to schedule purchases. The end result is just-in-time inventory, which reduces inventory sizes and costs. By describing value chains and their linkages, Porter started a movement to create integrated, cross-departmental business systems. Over time, Porter's work led to the