

Strategic Management and Business Policy I

Dr. Leul Girma | Berlin



**Lessingstraße 79,
13158 Berlin, Germany
Phone: +49 30 233618555
Fax: +49 30 233618556
Email: info@eiiet.com**

Discover the world of eiIET

Course & Class Information

Course: Strategic Management and Business Policy I

Program: Bachelor's Program

Credits: 4 ECTS

Mode: Onsite / Blended

Class 6: Value Chain Analysis and Strategic Policy Decisions

Instructor: Dr. Leul Girma

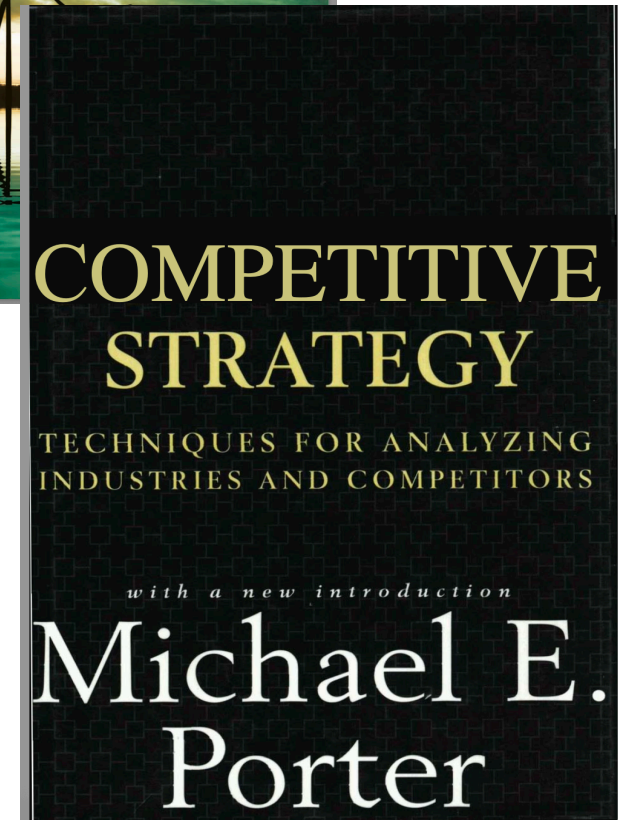
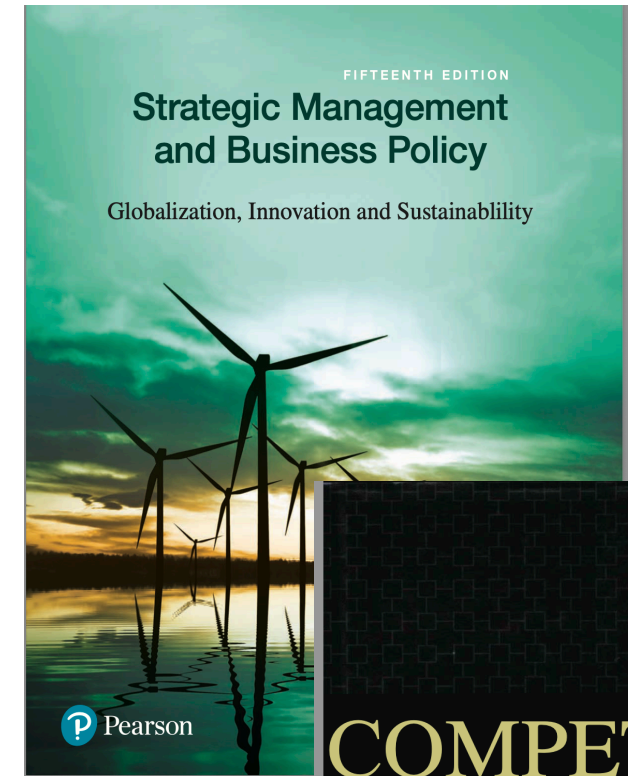
Main Teaching & Learning Materials

Books

- Mastering Strategic Management.
- Strategic Management and Business Policy

Business Policy resources

- Company annual reports
- Public corporate governance codes and policy guidelines
- Instructor-provided case materials



Objective and Learning Outcomes

Objective:

To examine how the **Value Chain framework explains internal activity-based competitive advantage** and to understand how strategic policy decisions shape **value chain design, cost structure, and differentiation positioning**

By the end of this class, students will be able to:

- Explain the structure and purpose of the Value Chain framework
- Distinguish between primary and support activities
- Describe the role of corporate governance in supporting strategic direction.
- Evaluate strategic policy decisions such as vertical integration and outsourcing

Understand the Value Chain

What is the Value Chain?

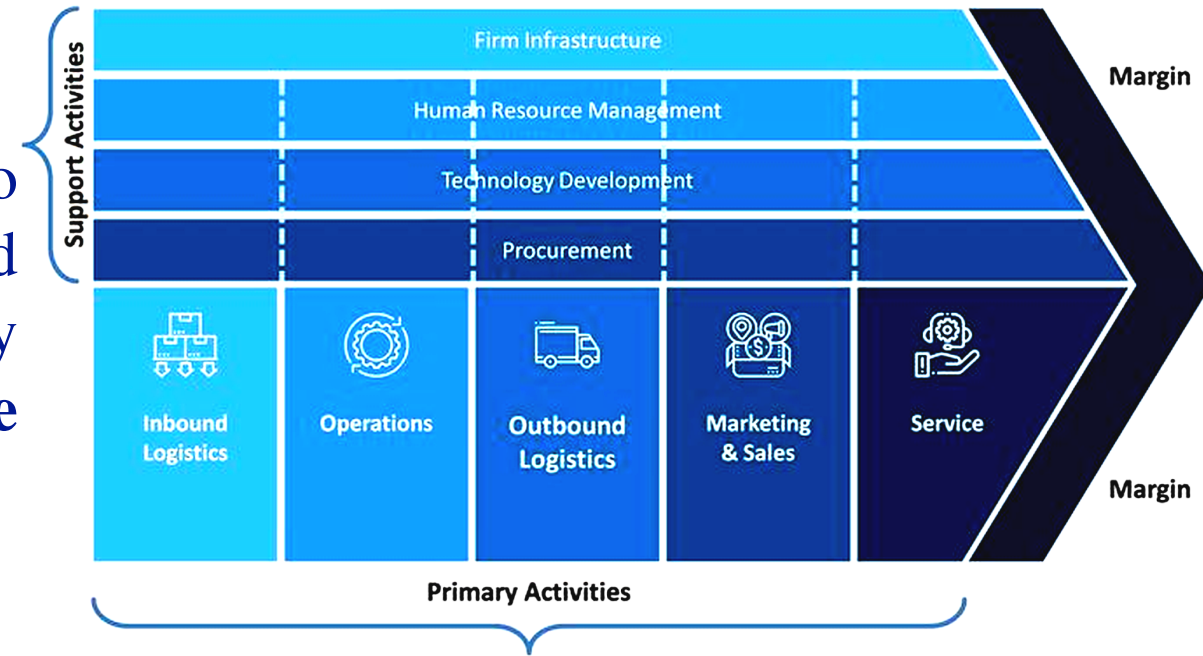
The Value Chain is a framework developed by Porter (1985) to analyze how a firm's internal activities contribute to value creation and competitive advantage by separating them into strategically relevant components (Porter, 1985; Johnson et al., 2020).

Conceptual Foundations:

- Firms create value through coordinated sets of activities
- Activities collectively determine cost structure and differentiation
- Competitive advantage depends on how activities are configured
- Activities must support the firm's overall strategic position

Porter's Value Chain

The Value Chain divides a firm's activities into two broad categories: **primary activities** and **support activities**: each contributing differently to **value creation and competitive advantage** (Porter, 1985; Wheelen et al., 2018)



Structural Logic:

- Primary activities are directly involved in product creation and delivery
- Support activities enable and enhance primary activities
- Activities are interdependent rather than isolated
- The overall margin reflects the difference between value created and total cost

Primary Activities

Primary activities are directly associated with the physical creation, sale, delivery, and after-sales service of a product or service (Porter, 1985; Grant, 2019).



Inbound Logistics: Activities related to receiving, storing, and managing inputs.

Operations: Activities that transform inputs into finished products or services.

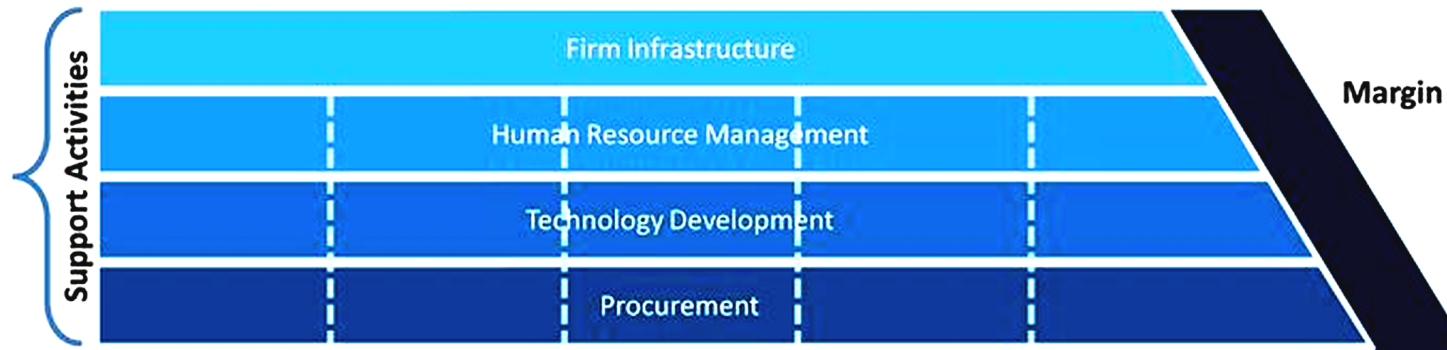
Outbound Logistics: Involved in distributing the final product to customers.

Marketing and Sales: Activities that promote and sell the product or service.

Service: Activities that maintain or enhance product value after the sale

Support Activities

Support activities provide the necessary infrastructure and resources that enable primary activities to function effectively and efficiently (Porter, 1985; Johnson et al., 2020).



- **Firm Infrastructure:** leadership, finance, planning, legal, and management
- **Human Resource Management:** Recruitment, training, development, and performance management.
- **Technology Development :** Research, innovation, process improvement, and IT
- **Procurement:** Purchasing of raw materials, equipment, and services.

How Activities Create Value

Value is created when a firm performs its activities in a way that increases customer willingness to pay beyond the cost of performing those activities (Porter, 1985).

Value Creation Logic:

- Activities generate cost or differentiation
- Efficient activities reduce total cost
- Unique activities increase customer value
- Coordination across activities strengthens advantage

Apple's Value Chain Activities

Apple's competitive advantage can be understood by examining how it performs and coordinates its primary and support activities.

Primary Activities

- **Inbound Logistics:** Strategic partnerships with advanced component suppliers
- **Operations:** Deep integration of hardware and software development
- **Outbound Logistics:** Direct-to-consumer distribution through Apple Stores & online channels
- **Marketing and Sales:** Experience-based marketing focused on lifestyle and innovation
- **Service:** Integrated ecosystem (iCloud, App Store, AppleCare)



Apple's Support activities

- **Firm Infrastructure:** Centralized strategic decision-making under strong executive leadership
- **Human Resource Management:** Recruitment of elite engineers, designers, and software developers
- **Technology Development:** Heavy investment in apple silicon chip design
- **Procurement:** Global sourcing with strict quality and confidentiality requirements



Linking Activities to Competitive Advantage

Competitive advantage emerges when a firm performs its value chain activities either more efficiently (cost advantage) or in a unique way that increases customer willingness to pay (differentiation) (Porter, 1985; Grant, 2019).

Differentiation Logic

- Apple silicon chip improves performance and ecosystem control
- Experience-based marketing strengthens premium brand perception
- Strong service ecosystem (App Store, iCloud, updates) increases customer loyalty
- Cross-functional coordination creates seamless product compatibility



Result: Customers are willing to pay premium prices.

Cost Advantage Logic

Cost advantage occurs when a firm performs its value chain activities at a lower cost than competitors while maintaining acceptable quality (Porter, 1985; Grant, 2019).

Sources of Cost Advantage

- Efficient operations and process optimization
- Economies of scale in production
- Strong bargaining power over suppliers
- Learning and experience effects
- Effective capacity utilization

Cost Advantage in the Value Chain

IKEA achieves cost advantage by designing its value chain activities around efficiency and standardization.

- **Inbound Logistics:** Global sourcing from low-cost suppliers in large volumes
- **Operations:** Standardized product designs enabling mass production
- **Outbound Logistics:** Self-service warehouse store layout reducing handling costs
- **Marketing and Sales:** Limited traditional advertising reducing promotional costs
- **Service:** Customer self-assembly reducing labor costs



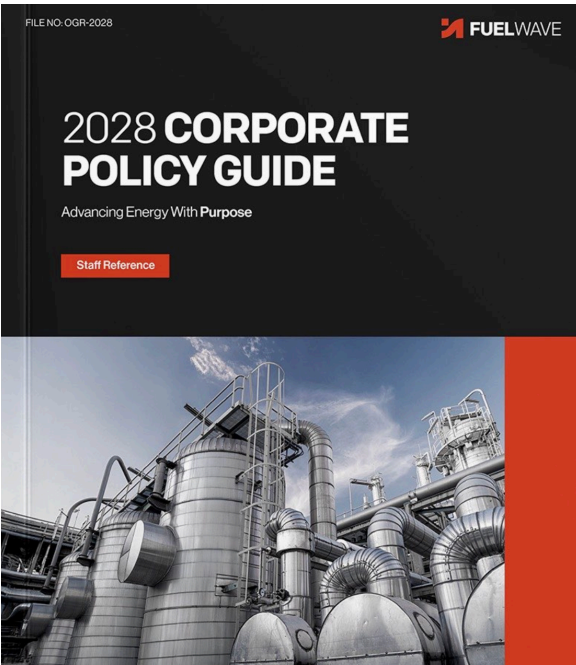
Strategic Policy Decisions In the Value Chain

Strategic Policy Decisions

Strategic policy decisions are high-level managerial choices that determine how an organization structures, coordinates, and governs its key activities in order to achieve long-term competitive advantage (Wheelen et al., 2018)

Key Characteristics:

- Set overall direction rather than daily operations
- Long-term in orientation
- Influence multiple value chain activities
- Support sustainable competitive positioning
- Define boundaries and governance mechanisms



Make-or-Buy Decisions

Make-or-buy decisions are strategic policy choices that determine whether a firm should perform a particular value chain activity internally (“make”) or obtain it from external suppliers (“buy”) (Porter, 1985; Grant, 2019)

Strategic Considerations:

- Does outsourcing reduce cost without losing control?
- Is the activity strategically sensitive?
- Does the activity provide competitive advantage?
- How does the decision affect long-term positioning?
- Is the firm capable of performing it efficiently?

Vertical Integration Policy

Vertical integration policy refers to the strategic decision that defines the extent to which a firm owns and controls activities across its value chain, either upstream (suppliers) or downstream (distribution) (Porter, 1985; Wheelen et al., 2018).

Policy Dimensions:

- Degree of ownership over suppliers (backward integration)
- Degree of ownership over distribution channels (forward integration)
- Level of control versus reliance on external partners
- Balance between stability and flexibility

Outsourcing Policy

Outsourcing policy refers to the strategic decision that defines which value chain activities are delegated to external partners rather than performed internally (Grant, 2019; Wheelen et al., 2018).

Policy Dimensions:

- Identification of core vs non-core activities
- Degree of reliance on external suppliers
- Level of control retained over outsourced activities
- Risk management and dependency considerations

Governance and Control of Value Chain Activities

Governance and control refer to the strategic mechanisms through which a firm coordinates, monitors, and regulates activities across its value chain to ensure alignment with organizational objectives (Wheelen et al., 2018)

Governance Mechanisms Include:

- Performance measurement systems
- Cost and quality control standards
- Managerial oversight and reporting structures
- Contracts and monitoring of external partners
- Internal coordination across departments

Ethical and Sustainability Considerations in the Value Chain

Value chain decisions are not only economic but also ethical and social policy choices. Firms must ensure that their activities comply with legal standards, ethical norms, and sustainability expectations across the entire value chain (Johnson, Scholes & Whittington, 2020).

Policy Considerations:

- Ethical sourcing of raw materials
- Fair labor practices across suppliers
- Environmental impact of operations and logistics
- Responsible marketing practices
- Transparency and accountability in supply chains

Case Study: Value Chain and Policy Implications

Case: Starbucks' Value Chain and Strategic Policy Decisions

Starbucks operates globally in the specialty coffee industry. The company manages sourcing of coffee beans, roasting operations, global distribution, retail store management, marketing, and customer service.

Starbucks places strong emphasis on ethical sourcing and long-term supplier relationships. At the same time, it controls store design, customer experience, and brand positioning. Some activities, such as farming and certain logistics operations, are outsourced, while others remain tightly controlled.

The company must continuously decide which value chain activities should be vertically integrated, which should be outsourced, and where investments should be prioritized. These policy decisions influence cost structure, product quality, brand differentiation, and customer loyalty.

As competition increases in the global beverage industry, Starbucks' management must evaluate whether its value chain design supports its long-term competitive positioning.

Case Instructions

1. Identify Starbucks' primary and support value chain activities.
2. Analyze how Starbucks creates differentiation through its value chain.
3. Evaluate its outsourcing and vertical integration decisions.
4. Discuss how governance mechanisms support quality and brand control.
5. Assess whether Starbucks' value chain supports sustainable competitive advantage.

Discussion Questions

1. Which value chain activities are most critical to Starbucks' differentiation strategy?
2. Should Starbucks vertically integrate more of its supply chain? Why or why not?
3. What risks arise from outsourcing certain activities?
3. How does ethical sourcing influence competitive positioning?
4. If you were CEO, where would you increase investment across the value chain?

Key Takeaways

- Competitive advantage emerges from how activities are performed, not only from resources
- The Value Chain helps identify where value is created and where costs are incurred
- Cost advantage and differentiation result from activity design and coordination
- Strategic policy decisions determine which activities are controlled, outsourced, or integrated
- Effective governance ensures alignment between value chain activities and competitive strategy

Further reading

Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Free Press.

Grant, R. M. (2019). *Contemporary Strategy Analysis* (10th ed.). Wiley.

Johnson, G., Scholes, K., & Whittington, R. (2020). *Exploring Strategy* (12th ed.). Pearson.

Wheelen, T. L., Hunger, J. D., Hoffman, A. N., & Bamford, C. E. (2018). *Strategic Management and Business Policy: Globalization, Innovation, and Sustainability* (15th ed.). Pearson.

Hill, C. W. L., Jones, G. R., & Schilling, M. A. (2020). *Strategic Management: Theory & Cases* (13th ed.). Cengage.

Thank you



**European Institute of Innovation,
Entrepreneurship and Technology**

Lessingstraße 79,

13158 Berlin, Germany

Phone: +49 176 55524449

Email: info@eiiet.com

Discover the world of eiIET