

Chapter 4

Value Configurations

Understanding how firms differ is a central challenge for both theory and practice of management. For a long time, Porter's (1985) value chain was the only value configuration known to managers. Stabell and Fjeldstad (1998) identified two alternative value configurations. First, a value shop schedules activities and applies resources in a fashion that is dimensioned and appropriate to the needs of client problems, while a value chain performs a fixed set of activities that enables it to produce a standard product in large numbers. Examples of value shops are professional service firms, as found in medicine, law, architecture and engineering. Next, a value network links clients or customers who are or wish to be interdependent. Examples of value networks are logistic companies, telephone companies, retail banks and insurance companies.

In this chapter, we apply the contingent approach to systems outsourcing by making the outsourcing decision dependent on the value configuration of the enterprise. We present the three different value configurations – the value chain, the value shop, and the value network. Next, the three different value configurations are compared according to key characteristics, e.g. use of information systems. Then, we take a look at interfirm relations to be able to identify areas for outsourcing, and value configuration as a determinant and predictor for the extent of outsourcing. Finally, we discuss levels of strategy and we introduce the Y-model for IS/IT strategy work.

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Figure 1. Examples of IS/IT in the value chain

Infrastructure: Use of corporate intranet for internal communications				
Human resources: Use of corporate intranet for competence building				
Technology: Computer Aided Design (CAD)				
Procurement: Use of electronic marketplaces				
Inbound logistics: Electronic Data Interchange (EDI)	Production: Computer Integrated Manufacturing (CIM)	Outbound logistics: Web-based order-tracking system	Marketing and sales: Customer Relationship Management (CRM)	Service: System for local trouble-shooting

VALUE CHAIN CONFIGURATION

The best-known value configuration is the value chain. In the value chain, value is created through efficient production of goods and services based on a variety of resources. The company is perceived as a series or chain of activities. Primary activities in the value chain include inbound logistics, production, outbound logistics, marketing and sales, and service. Support activities include infrastructure, human resources, technology development and procurement. Attention is on performing these activities in the chain in efficient and effective ways. In Figure 1, examples of IS/IT are assigned to primary and support activities. This figure can be used to describe the current IS/IT situation in the organization as it illustrates the extent of coverage of IS/IT for each activity.

To deliver low-cost or differentiated products, a firm must perform a series of activities. The different activities are called the firm's value chain. The typical assembler/manufacturer's value chain can be illustrated using the example of a manufacturer of computer hardware, such as a personal computer. The inbound logistics stage involves raw materials handling, such as computer CPU chips, memory modules, disk drives, fans, and so forth. A manager would also have to worry about an inspection of the materials, selection of parts, and delivery issues. The production stage involves the production of in-house components, assembly of the computer, testing and tuning, maintenance of equipment, and operation of the plant. The outbound logistics stage involves order processing and shipping. The marketing and sales stage is concerned with advertising, pricing, promotion, and management of the sales force. Finally, the service stage involves managing technical support and service representatives and replacement and repair of computers. In performing the activities of its value chain, a firm must interact with suppliers, customers, and firms in related industries. The other firms also have value chains of their own. A system of value chains is called a value chain system (Afuah & Tucci, 2003).

The value chain is more about efficiency than about new product development. It is about process more than product. And it is about low cost more than differentiation. The value chain describes the necessary activities once a product and its features have been conceived, and it is not necessarily concerned with developing a continual stream of innovations. However, marketing does have two roles in the value chain. The first was implied above: to stimulate demand for the product. The second role, however, is

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