INDIAN SCHOOL MUSCAT
SENIOR SECTION
DEPARTMENT OF COMMERCE & HUMANITIES
CLASS XII 2017-2018
ENTREPRENEURSHIP

NOTES UNIT–4: ENTERPRISE GROWTH STRATEGIES
QUESTION BANK

What is meant by Growth and development of an enterprise? What are the different ways of Expansion?

Growth is always essential for the existence of a business concern. The entrepreneur is an endless challenge seeker. Once their small business is successfully running, growth is the next exciting challenge. The decision to extend the scope of one's business must be a result of thoughtful consideration of various factors, including the financial, logistical, even his/her emotional readiness. The rule of thumb is that one should only expand when there are untapped opportunities that can benefit the business.

For growth and development, a successful entrepreneur will make sure there is a constant flow of new ideas and a commitment to try out at least some of these new ideas. An organization has to maintain its momentum through interplay of flexibility and change.

An entrepreneur has a dual role to play- one, that of a leader and the other of a manager. The former provides direction and energy while the latter processes the input and gives the output.

Thus, expansion may be;

(a) Internal expansion: Internal expansion results from the gradual increase in the activities of the enterprise. For internal expansion, a firm may:
- Expand its present production capacity by adding more machines or by replacing old machines with the new machines with higher productive capacity.
- By taking up the production of more products or by entering new fields on the production and marketing sides.
- Internal expansion may be financed by the issue of more share capital, generating funds from old profits or by issuing long–term securities.

(b) **External expansion or business combination:** External expansion refers to business combination where two or more enterprises combine and expand their business activities. In the process of combination, two or more units engage in similar business or related process or stages. Sometimes stages of the same business join with a view to carry on their activities or make polices on common basis some other or in coordination for mutual benefit or maximum profits. The combination may be among competing units or units engaged in different processes. After combination, the constituted firm pursues some common objectives or goals.

Define Franchising

Franchising allows entrepreneurs to be in business for themselves, but not by themselves. There is usually a much higher likelihood of success when an individual opens a franchise as opposed to family business because franchising is a proven business formula and the products, services, and business operations have already been established in the market.

Franchising is as "**an arrangement whereby the manufacturer or sole distributor of a trademarked**

product or service gives exclusive rights of local distribution to independent retailers in return for their payment of royalties and conformance to standardized operating procedures". The person offering the franchise is known as the franchisor. The franchisee is the person who purchases the franchise and is given the opportunity to enter a new business with a better chance to success.

What is a Franchise Agreement? What are the main ingredients of a Franchise Agreement?
Foundation of 'Franchisee' and 'Franchisor' is the Franchise Agreement. **A franchise agreement is the legal document that binds the franchisor and franchisee together.**
This document explains what the franchisor expects from the franchisee in running the business. The agreement is designed to assure that all of the franchisees within an organization are treated equitably.
The main ingredients of a franchise agreement:

- **Contract Explanation:** The contract explanation is the part of the agreement that outlines the type of relationship a franchisee is entering into with the franchisor.
- **Operations Manual:** The operations manual is the section of the agreement that details the guidelines that the franchisee must legally follow in operating the business as outlined by the franchisor. The franchisee needs to be aware that the contents of the document are confidential.
- **Proprietary Statements:** Proprietary statements outline how the franchise name is to be used, as well as the marketing and advertising procedures in place that the franchisee will be required to follow. Also, the franchisor documents how much the franchisee will be required to contribute toward national advertising efforts.
- **Ongoing Site Maintenance:** Ongoing site maintenance is another item that is outlined in the agreement. Included are the types and timeframes regarding various maintenance items and upgrades that must be made to the franchisee's location.

How do big brands take advantage and make head towards for franchising?
The big corporate houses that have opted for a franchise route consider franchising as an easy mode of expansion with commitment level of the franchisor and the franchisees. It is a powerful and ideal way to expand business, for a company which does not have any capital, manpower or time to build the network of company-owned outlets.

(Refer to the case study of McDonals, Raymond Ltd, NIIT, etc.)

What are the different types of franchising options available for growth and expansion?

- **Product franchise business opportunity:** Manufacturers use the product franchise to govern how a retailer distributes their products. The manufacturer grants a store owner the authority to distribute goods by the manufacturer and allows the owner to use the name and trademark owned by the manufacturer. The store owner must pay a fee or purchase a minimum inventory of stock in return for these rights. Some tire stores are good examples of this type of franchise.
- **Manufacturing franchise opportunity:** These types of franchises provide an organization with the right to manufacture a product and sell it to the public, using the franchisor's name and trademark. This type of franchise is found most often in the food and beverage industry. Most bottlers of soft drinks receive a franchise from a company and must use its ingredients to produce, bottle and distribute the soft drinks.
- **Business franchise opportunity ventures:** These ventures typically require that a business owner purchases and distributes the products for one specific company. The company must provide customers or accounts to the business owner, and in return, the business owner pays a

fee or other consideration as compensation. Examples include vending machine routes and distributorships.

- **Business format franchise opportunity:** This is the most popular form of franchising. In this approach, a company provides a business owner with a proven method for operating a business using the name and trademark of the company. The company usually provides a significant amount of assistance to the business owner in starting and managing the company. The business owner pays a fee or royalty in return. Typically, a company also requires the owner to purchase supplies from the company.

How does the system of Franchising for growth and development help start-ups (newly formed enterprises)?:

1. Franchising changed the working of the startups because already the product carriers a name in the market already which is the most difficult part of business to establish. That is why the startups pay royalty to the franchisor. Since the startups offer an established product that struggling time and money involved in the process. Startups save that.
2. Startups take up training to understand the product and franchisors make franchises fully conversant with the product/services that they have to offer. It is very important that the Sales-man must know his/her product. In this case, start-ups are the sales person. And franchisors charge a fee for this purpose, franchisors motive is at every step 'Pay and Smile. That is not a bad bargain.
3. The start-ups can grow fast without having to increase labour, operating costs and blocking running expenses because normally buyers straight walk up to them.
4. In practical Franchises work for the benefit of franchisors in other words they turn up one plus one eleven. Both are all out open to help each other. Franchisors' efforts to boast their franchises are always sincere, so there is no–clash of interest.

What are the advantages of franchising?

One of the most important advantages of buying a franchise is that the entrepreneur does not have to incur all the risks associated with creating a new business. Normally, local entrepreneurs have problems with in starting a new venture are product acceptance, management expertise, meeting capital requirements, knowledge of the market, and operating and structural controls. In franchising, the risks associated with each are minimized through the franchise relationship, as discussed below.

Advantages to the franchisee

1. **Product acceptance:** The franchisee usually enters into a business that has an accepted name, product or service. The franchisee does not have to spend resources trying to establish the credibility of the business. That credibility already exists based on the years the franchise has existed. Subway has also spent millions of dollars in advertising, thus building a favourable image of the products and services offered. An entrepreneur who tries to start a sandwich shop would be unknown to the potential customers and would require significant effort and resources to build credibility and a reputation in the market.
2. **Management expertise:** Another important advantage to the franchisee is the managerial assistance provided by the franchisor. Each new franchisee is often required to take a training program on all aspects of operating the franchise. This training could include classes in accounting, personnel management marketing and production. McDonald's, for example, requires all its franchisees to spend time at its school, where everyone takes classes in these areas. Once the franchise has been started, most franchisors will offer managerial assistance on

the basis of need.

3. **Capital requirement:** Starting a new venture can be costly in terms of both time and money. The franchise offers an opportunity to start a new venture with up-front support that could save the entrepreneur's significant time and possibly capital. Some franchisors conduct location analysis and market research of the area that might include an assessment of traffic, demographics, business condition and competition. In some cases, the franchisor also finances the initial investment to start the franchise operation. The initial capital required to purchase a franchise generally reflects a fee for the franchise, construction costs and the purchase of equipment. The layout of the facility, control of stock and inventory and the potential buying power of the entire franchise operation can save the entrepreneur significant funds.
4. **Knowledge of the market** Any established franchise business offers the entrepreneur years of experience in the business and knowledge of the market. This knowledge is usually reflected in a plan offered to the franchisee that details the profile of the target customer and the strategies that should be implemented once the operation has begun. This is particularly important because of regional and local differences in markets. Competition, media effectiveness, and tastes can vary widely from one market to another. Given their experience, franchisors can provide advice and assistance in accommodating any of these differences.
5. **Operating and structural controls:** Two problems that many entrepreneurs have in starting a new venture are maintaining quality control of products and services and establishing effective managerial controls. The franchisor, particularly in the food business, identifies purveyors and suppliers that meet the quality standards established. In some instances, the supplies are actually provided by the franchisor. Standardization in the supplies, products and services provided helps ensure that the entrepreneur will maintain quality standards that are so important. Standardization also supports a consistent image on which the franchise business depends for expansion.

Advantages of franchising to the franchisor

The advantages a franchisor gains through franchising are related to expansion risk, capital requirements and cost advantages that result from extensive buying power. In order to use franchising as an expansion method, the franchisor must have established value and credibility that someone else is willing to buy.

1. **Quick expansion:** The most obvious advantage of franchising for an entrepreneur is that it allows the venture to expand quickly using little capital. This advantage is significant when we reflect on the problems and issues that an entrepreneur faces in trying to manage and grow a new venture. A franchisor can expand a business nationally and even internationally by authorizing and selling franchises in selected locations. The capital necessary for this expansion is much less than it would be without franchising. This allows the franchisor to maintain low payroll and minimizes personnel issues and problems.
2. **Cost advantages:** The simple size of a franchised company offers many advantages to the franchisees. The franchisor can purchase supplies in large quantities, thus achieving economies of scale that would not have been possible otherwise. Many franchise businesses produce parts, accessories, packaging and raw materials in large quantities, then in turn sell these to the franchisees. The franchisees are usually required to purchase these items as part of the franchise agreement and they usually benefit from lower prices.

Disadvantages of franchising to the franchisee

Some of the key disadvantages of this mode of expansion are:

- **Right and the only way of doing things**: Entering into a franchise contract limits the degree of freedom for the franchise. As such, one gets an over-guided and over-influenced degree of control exerted by the franchisor. This results in losing the freedom to innovate to some extent.

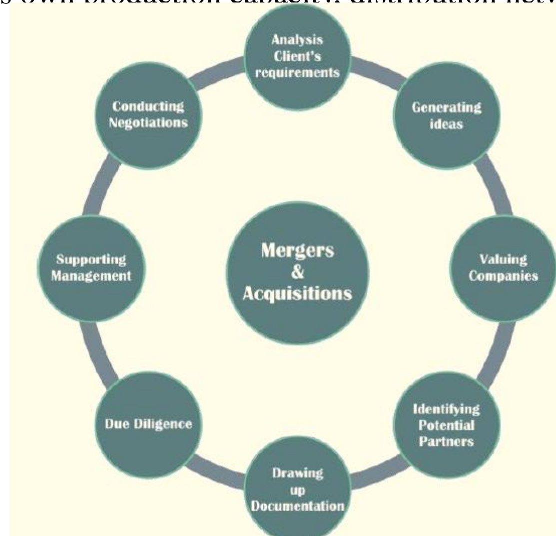
- **Continuing cost implication**: Over and above the original franchise fee and royalties, a percentage of revenue gets shared perpetually with the franchisor. The franchisor may also charge additional amounts towards sharing the cost for services provided such as advertising and training. As such, entering into franchise contracts with a well-known franchisor becomes a very expensive proposition because of a tendency on their part to exploit the franchisee.
- **Risk of franchisor getting bought**: The franchisee faces serious problems and difficulties when the franchisor either fails or gets bought out by another company.
- **Inability to provide services**: The disadvantages to the franchisee usually centre around the inability of the franchisor to provide services advertising and location. When promises made in the franchise agreement are not kept, the franchisee may be left without any support in important areas. For example, Curtis Bean bought a dozen franchises in Checkers of America Inc., a firm that provides auto inspection services. After losing $200,000, Bean and other franchisees filed a lawsuit claiming that the franchisor had misrepresented advertising costs and had made false claims including that no experience was necessary to own a franchise.

Disadvantage to the franchisor

- **Difficulty in identifying quality franchisees**: Above all, even the franchisor may find it difficult to identify quality franchisees. Even after extending all support towards training and providing capital, poor management may lead to the failure of the franchisee and in turn, adversely affect the franchise system as a whole.

Discuss growth and development of an enterprise through mergers and acquisitions (M&A)

Mergers and Acquisitions (M&A) is a potential strategy for ensuring the accelerated growth of a business. There are various reasons that firms may choose to grow through M&A instead of expanding internally. The growth process is accelerated by acquiring a target in a line of business in which the bidding company wants to enlarge when compared with internal expansion, because the company already exists in place, with its own production capacity, distribution network and clientele.

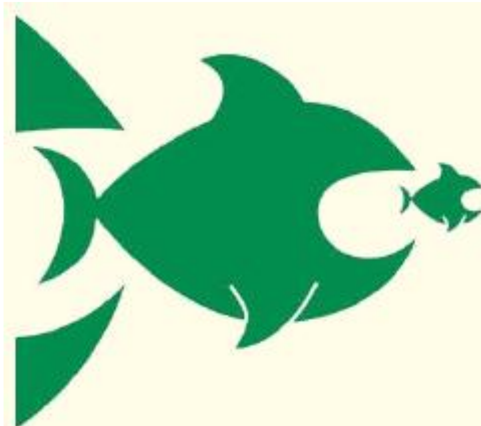


- **Mergers:** A merger is a combination of two companies into one larger company. In merger, the acquiring company takes over the assets and liabilities of the merged company. All the combining companies are dissolved and only the new entity continues to operate. In general, when the combination involves firms that are of similar size, the term, consolidation, is applied. When the two firms differ significantly by size, the term merger is used.

  Merger commonly takes two forms. In the first form amalgamation, two entities combine

together and form a new entity, extinguishing both the existing entities.
In the second form absorption, one entity gets absorbed into another. The latter does not lose its entity. Thus, in any type of merger at least one entity loses its entity.
Hence, A + B = A, where company B is merged into company A (Absorption)
A + B = C, where C is an entirely new company (Amalgamation or Consolidation)
Usually, mergers occur in a consensual setting. The boards of directors of the two firms agree to combine and seek stockholder approval for the combination. In most cases, at least 50% of the shareholders of the target and the bidding firms have to agree to the merger. The target firm ceases to exist and becomes part of the acquiring firm.
For example, Digital Computers was absorbed by Compaq after it was acquired in 1997. The merger of TOMCO Ltd. with HLL is a classic example of absorption. In a consolidation, a new firm is created after the merger, and both the acquiring firm and the target firm stockholders receive stock in this firm; Citi Group, for instance, was created after the consolidation of Citicorp and Travellers Insurance Group.

- **Acquisitions**: Acquisition is 'A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm.' It could be acquisition of tangible assets, intangible assets, rights and other kinds of obligations. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and position compared to expanding on its own.



Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. An acquisition, also known as a takeover, is the buying of one company (the target) by another. There are four types of acquisitions:

  - **Friendly acquisition:** Both the companies approve of the acquisition under friendly terms. There is no forceful acquisition and the entire process is cordial.
  - **Reverse acquisition:** A private company takes over a public company.
  - **Back flip acquisition:** A very rare case of acquisition in which the purchasing company becomes a subsidiary of the purchased company.
  - **Hostile acquisition:** Here, as the name suggests, the entire process is done by force. The smaller company is either driven to such a condition that it has no option but to say yes to the acquisition or the bigger company just buys off all its share, thereby establishing majority and hence initiating the acquisition.

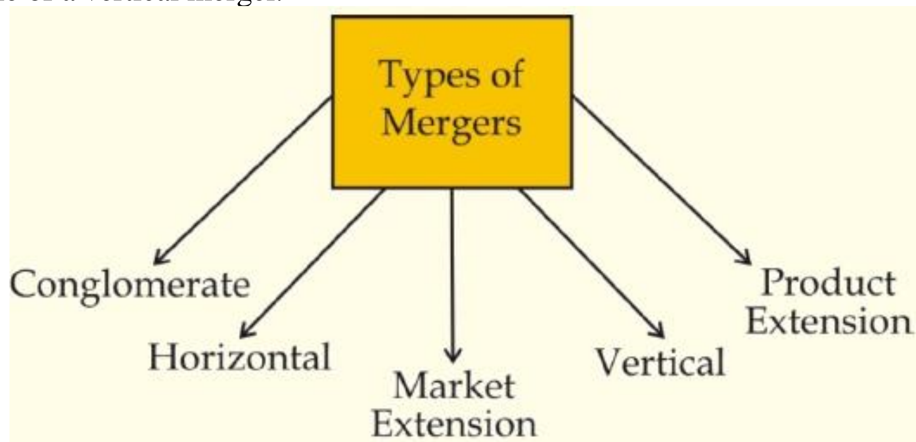
What are the different types of merger options available for an enterprise as part of their growth and expansion plans?

1. **Conglomerate:** A merger between firms that are involved in totally unrelated business activities.

There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

Example: A leading manufacturer of athletic shoes merges with a soft drink firm. One example of a conglomerate merger was the merger between the Walt Disney Company and the American Broadcasting Company.

2. **Horizontal merger: A merger occurring between companies in the same industry**. Horizontal merger is a business consolidation that occurs between firms which operate in the same space, often as competitors offering the same goods or service. Horizontal mergers are common in industries with fewer firms, as competition tends to be higher and the synergies and potential gains in market share are much greater for merging firms in such an industry. Example: A merger between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature.
3. **Market extension mergers:** A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.
4. **Product extension mergers:** A product extension merger takes place between two business organizations that deal in products that are related to each other and operate in the same market. The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.
5. **Vertical merger:** A merger between two companies producing different goods or services for one specific finished product. A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations. Most often the logic behind the merger is to increase synergies created by merging firms that would be more efficient operating as one. Example: An automobile company joining with a parts supplier would be an example of a vertical merger.



Explain the reasons that contribute to mergers and acquisitions as part of growth expansion policy of an enterprise.

Mergers and acquisitions (M & As) are inspired by a desire to diversify or achieve higher growth rate, the reasons could be varied. Some of the commonly identified reasons are:

1. **Synergy:** Synergy is the most essential component of mergers. In mergers, synergy between the participating firms determines the increase in value of the combined entity. In other words, **it**

refers to the difference between the value of the combined firm and the value of the sum of the participants.

Synergy accrues in the form of revenue enhancement and cost savings. For example, if firms A and B merge and the value of the combined entity V (AB) is expected to be greater than (VA+VB), the sum of the independent values of A and B, the combined entity is said to be benefitting through synergy.

Synergy can take the following forms:

a) **Operating synergy:** This refers to the cost savings that come through economies of scale or increased sales and profits. It leads to the overall growth of the firm.

b) **Financial synergy:** This is the direct result of financial factors such as lower taxes, higher debt capacity or better use of idle cash. When a firm with accumulated losses or unabsorbed depreciation merges with a profitable firm and the combined firm can set off such losses against its profits, a financial synergy, known as tax shield, occurs.

The following are some examples:

- When Hindustan Unilever Company acquired Lakme, it helped HUL to enter the cosmetics market through an established brand.
- When Glaxo and Smithkline Beecham merged, they not only gained market share but also eliminated competition between each other.
- Tata Tea acquired Tetley to leverage Tetley's international marketing strengths.

2. **Acquiring new technology**: To remain competitive, companies need to constantly upgrade their technology and business applications. To upgrade technology, a company need not always

acquire technology. By buying another company with unique technology, the buying company can maintain or develop a competitive edge. Example: the merger between Blackberry and Treo which can incorporate cell phone capability and e–mail connectivity in one device

3. **Improved profitability:** Companies explore the possibilities of a merger when they anticipate that it will improve their profitability. For example, European Media Group Betelsmann, Pearson, and others have driven their growth by expanding into the US though M&As.
4. **Acquiring a competency:** Companies also select for M&A to acquire a competency or capability that they do not have and which the other firm does. For example, the ICICI ITC alliance made the retailer network and depositor base available to the merging entity.
5. **Entry into new markets**: Mergers are often looked upon as a tool for hassle-free entry into new markets. Under normal conditions, a company can enter a new market, but may have to face stiff competition from the existing companies and may have to battle out for a share in the existing market. However, if the merger route is adopted, one can enter the market with greater case and avoid too much competition. For example, the merger of Orange, Hutch, and Vodafone took place to achieve this objective.
6. **Access to funds**: Often a company finds it difficult to access funds from the capital market. This weakness deprives the company of funds to pursue its growth objectives effectively. In such cases, a company may decide to merge with another company that is viewed as fund-rich.
7. **Tax benefits:** Mergers are also adopted to reduce tax liabilities. By merging with a loss-making entity, a company with a high tax liability can set off the accumulated losses of the target against its profits gaining tax benefits. For example, Ashok Leyland Information Technology (ALIT) was acquired by Hinduja Finance, a group company, so that it could set off the accumulated losses in ALITs books against its profits.

Mergers and acquisition are good methods that an enterprise can adopt for growth and expansion. However, mergers and Acquisition can also fail. Enumerate the various reasons for the failure of merger and acquisitions.

The most common reasons for failure are as follows:

1. **Unrealistic price paid for target:** The process of M&A involves valuation of the target company and paying a price for taking over the assets of the company. Quite often one finds that the price paid to the target company is much more than what should have been paid. While the shareholders of the target company stand benefited, the shareholders of the acquirer end up on the losing side. This is because they have to carry the burden of the overpriced assets of the target company which dilutes the future earnings of the acquirer.
2. **Difficulties in cultural integration**: Every merger involves combining of two or more different entities. These entities reflect different corporate cultures, styles of leadership, differing employee expectations and functional differences. If the merger is implemented in a way that does not deal sensitively with the companies people and their different corporate cultures, the process may turn out to be a disaster. There may be acute contrasts between the attitudes and values of the two companies, especially if the new partnership crosses national boundaries. While the process is being executed, these differences are known but often ignored. As years pass by and the combined entity tries to synergize the operations, these differences surface and often lead to failure of the merger.
3. **Overstated synergies**: Mergers and acquisitions are looked upon as an important instrument for creating synergies through increased revenue, reduced costs and reduction in networking capital and improvement in the investment intensity. Overestimation for these can lead to failure of

mergers.

4. **Integration difficulties**: Companies very often face integration difficulties, i.e., the combined entity have to adapt to a new set of challenges given by the changed circumstances. To do this, the company prepares plans to integrate the operations of the combining entities. If the information available on related issues is inadequate or inaccurate, integration becomes difficult.
5. **Poor business fit:** Mergers and acquisitions also fail when the products or services of the merging entities do not naturally fit into the acquirer's overall business plan. This delays efficient and effective integration and causes failure.
6. **Inadequate due diligence**: Due diligence is a crucial component of the M&A process as it helps in detecting financial and business risks that the acquirer inherits from the target company. Inaccurate estimation of the related risk can result in failure of the merger.
7. **High leverage:** One of the most crucial elements of an effective acquisition strategy is planning how one intends to finance the deal through an ideal capital structure. The acquirer may decide to acquire the target through cash. To pay the price of acquisition, the acquirer may borrow heavily from the market. This creates a very high leveraged structure and increases the interest burden of the company.
8. **Boardroom split**: When a merger is planned, it is crucial to evaluate the composition of the boardroom and compatibility of the directors. Managers or directors who are suddenly deprived of authority can be particularly bitter. Specific personality clashes between executives in the two companies are also very common. This may prove to be a major problem, slowing down or preventing integration of the entities.
9. **Regulatory issues**: The entire process of merger requires legal approvals. If any of the stakeholders are not in favour of the merger, they might create legal obstacles and slow down the entire process. This results in regulatory delays and increases the risk of deterioration for the business. While evaluating a merger proposal, care should be taken to ensure that regulatory hassles do not crop up.
10. **Human resources issues**: A merger or acquisition is identified with job losses, restructuring and the imposition of a new corporate culture and identity. This can create uncertainty, anxiety and resentment among the company's employees. Companies often pay undue attention to the short term legal and financial considerations involved in a merger or acquisition, and neglect crucial HR issues related to corporate identity and communication, which in turn impact the worker's morale and productivity.

Define Value addition in business. What are the different value additions that an enterprise can include in its business strategies.

Business adds values to goods and services by modifying them in a particular way to create a new product of greater value to customers.

- Added value, from a financial point of view, represents the difference between the value of goods and services that are used as inputs to a production process and the value of the outputs of that process.
- Added value, from a marketing perspective, means adding value that turns a commodity into a branded product. Branded products and services can also have value added by enhancing their design, characteristics or range of features. Commodities are basically unprocessed raw products such as crude oil, meat carcasses, fresh fruit and cotton balls.
- To add value to a commodity, it needs to be processed in some way to turn it into a branded product that consumers are willing to pay more for than the raw product. For example, a food

processor could purchase milk from a dairy farmer and make it into cheese. The packaged cheese has added value and becomes a branded good. The value people place on goods and services determine the quantitative value (the money people are willing to exchange for the product) and the qualitative value (the desirability of the product).

Common examples of adding value include:

- Turning cotton into fabric
- Turning milk into cheese
- Packaging ready-to-use grated cheese into serving size packets
- Turning wood into paper
- Designing a mobile phone that can also take photographs
- Fortifying food with vitamins and minerals

Explain how adding value is a strategy for growth and development. Discuss the value adding strategies that be employed at any phase of the production or service cycle.

Adding Value is a Business Strategy for Growth (Kevinzhengli) Types of added value. There are several types of added values that a business can employ to improve its products and services.

- Quality
- Environmental
- Cause-related
- Cultural

The different types of added value are not mutually exclusive and can be employed at any phase of the production or service cycle.

1. **Quality added value**: Quality added value is basically adding convenience, ease of use or other desirable characteristics that customers value. For example, turning a commodity into a branded product or design enhancements like pull tabs for easy opening or sipper tops on beverage bottles.
2. **Environmental added value:** Environmental added value employs methods or systems that do not harm the environment or are less harmful than those commonly used. For example, using less electricity, using less fuel and using recycled material for packaging.
3. **Cause-related added value:** Cause-related added value is a social marketing strategy where business contributes part of the revenue from a product or service to a cause. For example, a business may donate a percentage of revenue from each transaction to a cause such as an educational facility for disadvantaged children or a wildlife sanctuary.
4. **Cultural added value:** Cultural added value is also a social marketing strategy that employs methods or systems of production involving cultural aspects or allow for the needs and sensitivities of cultural groups.

   Adding value can be used as a marketing strategy to differentiate a product from competing products. Such strategies should be fully researched and included in a business plan to show the potential benefits to a business.

What is a 'Value Chain'?

A value chain is the whole series of activities that create and build value at every step. The total value delivered by the company is the sum total of the value built up all throughout the company.

In simple words 'Value Chain' is a high level model of how business receive raw-materials, add value to the raw-materials through various processes and sell as finished products to customers. 'Value Chain' analysis looks at every step of business, from raw-materials to the eventual end users, with one goal to

deliver maximum value.

Michael Porter introduced the value chain analysis concept in his 1985 book 'The Competitive Advantage'. Porter suggested that activities within an organisation add value to the service and products that the organisation produces and all these activities should be run at optimum level if the organisation is to gain any real competitive advantage.

What are 'primary activities' and 'supporting activities' in a value chain?

If businesses are run efficiently, the value obtained should exceed the costs of running them i.e. customers should return to the organisation and transact freely and willingly. Michael Porter suggested that the organisation is split into 'primary activities' and 'support activities'.

Primary activities

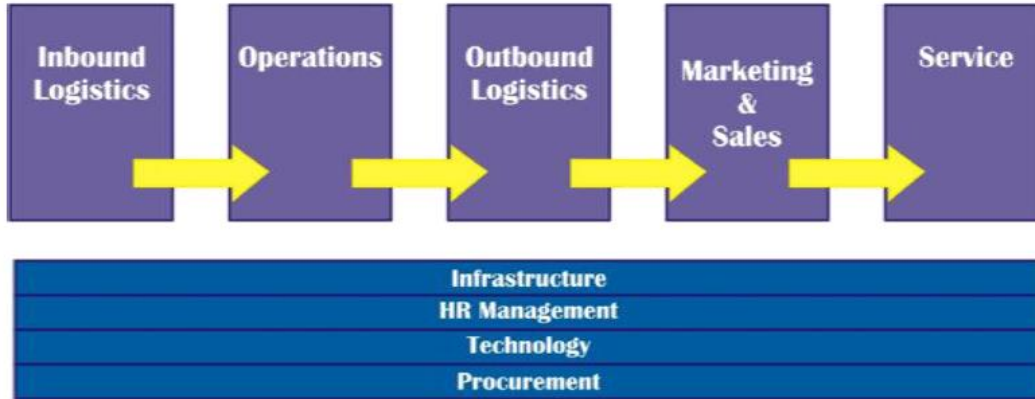
- **Inbound logistics**: Goods being obtained from the organisation's suppliers and to be used for producing the end product.
- **Operations**: Raw materials and goods are manufactured into the final product. Value is added to the product at this stage as it moves through the production line.
- **Outbound logistics**: Once the products have been manufactured, they are ready to be distributed to distribution centres, wholesalers, retailers or customers. Distribution of finished goods is known as outbound logistics.
- **Marketing and sales:** Marketing must make sure that the product is targeted towards the correct customer group. The marketing mix is used to establish an effective strategy, any competitive advantage is clearly communicated to the target group through the promotional mix.
- **Services**: After the product/service has been sold, what support services does the organisation offer customers? This may come in the form of after sales training, guarantees and warranties. With the above activities, any or a combination of them are essential if the firm has to develop the "competitive advantage" which Porter talks about in his book.

Support activities

Support activities assist the primary activities in helping the organisation achieve its competitive advantage.

They include:

- **Procurement:** This department must source raw materials for the business and obtain the best price for doing so. The challenge for procurement is to obtain the best possible quality available (on the market) for their budget.
- **Technological development:** The use of technology to obtain a competitive advantage is very important in today's technology driven environment. Technology can be used in many ways, including production, to reduce cost and thus adding value, research and development to develop new products on the internet so that customers can have 24/7 access to the firm.
- **Human resource management:** The organisation will have to recruit, train and develop the right people for the organisation to be successful. Staff will have to be motivated and paid the 'market rate', if they are to stay with the organisation and add value. Within the service sector such as the airline industry, employees are at the competitive advantage as customers are purchasing a service, which is provided by employees; there isn't a product for the customer to take away with them.
- **Firm infrastructure:** Every organisation needs to ensure that their finances, legal structure and management structure work efficiently and help drive the organisation forward. Inefficient infrastructure's waste resources could affect the firm's reputation and even leave it open to fines and sanctions.



What are main requirements for moving up along the value chain in an enterprise?

There are six requirements for value chain management. Value chain managers are always looking for ways to improve the company's processes.

- **Coordination and collaboration:** To increase efficiency within an organization, coordination and collaboration is essential. Coordinate work groups to ensure efforts are not duplicated. Utilize the theory that the whole is greater than the sum of its parts by collaborating with other groups and individuals to achieve a common goal.
- **Technology investment:** Technology plays a large role in manufacturing and distribution. With out-dated technology, such as old computers or machinery, an organization's competitiveness is weakened due to a loss in productivity.
- **Organizational process:** In value chain management, every aspect of an organization's process is identified. Improvement in processes through better technology and greater procedural knowledge is important to the present and future success of a company.
- **Leadership:** Strong leaders are crucial to the success in value chain management. Good leaders earn the respect of their employees through sound management practices. Conflict management, motivation and direction are traits that strong leaders display.
- **Employee/human resources:** A central hub of information on benefits, company policies, hiring and conflict management is also necessary for a corporation to function properly. Without a knowledgeable and active human resources department, employees may feel they don't have a voice within the company. Many times, an employee is hesitant to go directly to the supervisor with issues; a human resources employee can act as a liaison in many situations.
- **Organizational culture and attitudes:** Organizations that foster strong cultural identity with positive attitudes tend to attract and retain top employees. Regular corporate sponsored activities are suggested to help build cultural unity and keep attitudes positive while boosting productivity.

"The price of success is hard work, dedication to the job at hand, and the determination that whether we win or lose, we have applied the best of ourselves to the task at hand." – Vince Lombardi

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