Chapter IV

Web or Chains: The Quest for Value

Introduction

Vertical integration is not the only traditional concept that has been challenged in the current business environment where firm and industry boundaries have blurred, speed of technological change is increasing, and the focus of business has shifted from products to services. The whole concept of value creation is being reevaluated: in the past, value was created sequentially as a product’s value increased as it moved through a chain of activities — a value chain — from raw material to end products. However, today the value is being created constantly and in parallel. The main source of value is no longer in physical goods and products, but increasingly in services, skills, and knowledge. This development has forced researchers and businesspeople to look for new ways of modeling the concept of value creation.

In this chapter, we will review some of the models and frameworks that have challenged the old value chain concept. The goal is to find useful frameworks that would help us to understand what is actually happening in the mobile industry today and in the future.
Where is the Value in the Value Chain?

Let us start this review by discussing the role the value chain (Porter, 1985) in today’s knowledge-, competence-, and technology-driven business environment. It is no secret that the value chain concept has been strongly criticized over the past ten years. According to Maitland, Bauer, and Westerveld (2002), critics of the value chain concept note that “the chain metaphor masks the importance of horizontal aspects of a firm’s processes, particularly their relationships with other firms” (p. 488). However, although value chain may not be the latest gimmick in the consulting business or business education, it is still widely used both in academic research and in the strategic planning process of companies. Therefore, we will next go briefly through the anatomy of the value chain concept.

The value chain model (Porter, 1985) is a tool that can be used to analyze the sources of competitive edge, to look for new ways of creating and sustaining competitive edge, and to plan efficient organizational structures. By using the value chain model, a company can be split systematically into various activities in order to better see what would be the most efficient way of grouping the activities within the organization. Porter was particularly interested in the links between various activities, as traditional ways of looking at organizations did not provide the proper tools to coordinate or optimize these links.

Box 15. False Assumptions Behind Traditional Business Models

In his book “How Hits Happen — Forecasting Predictability in a Chaotic Marketplace,” Winslow Farrell (2000) attacks the fundamental assumption behind many traditional business analyses — “the notion of the equilibrium position, or steady-state” (p. 89). A steady state of equilibrium is a possible outcome only in closed systems where things happen in a linear fashion. Therefore, economists have “relied on the attributes of closed systems” in order to be able “to attach a deterministic outcome (if this happens, then that will occur) to interactions within the system” (p. 88). Farrell argues that these models — “most prominent among them Michael Porter’s competitive diamond”