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Business Process Improvement

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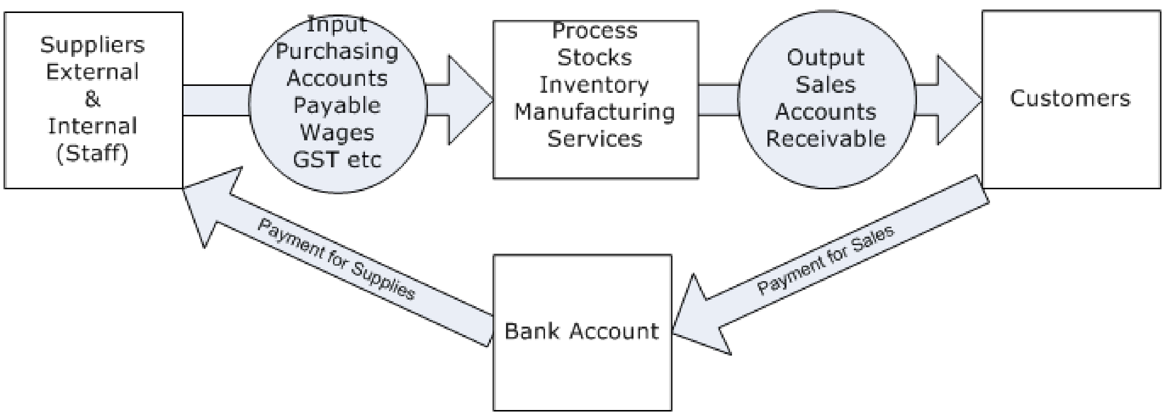
How do you know where to begin on your exciting journey through business process improvement? How can you identify a gap in one of your organisation's core processes? How can you make more money? Is there something you're doing that loses you money and something that if you did more of would make you more money?

The answer is simple – follow the money. Then the hard work starts!

But how do you follow the money and what will that mean for the organisation; how will you deal with the inevitable changes which will result from this detective work? Are you really prepared to challenge the current way you're doing business – are you content just to sit still in an ever-changing and more competitive world?

Ask yourself this question – what business are we in? You may ask – why? – to follow the money.

Follow The Money



So ask yourself that question – what do we do? What is your mission/vision, your strategic goals and objectives?

Many businesses started because someone had a good idea and have never delved further into the organisation's life than that.

You need to identify exactly how you earn revenue / income and where it comes from. Curiously this will define your business model – which is how you make money.

Some people dislike using the term "model" as this might describe a 3D model, like a plastic airplane – so here is a definition of what we mean when talking about a business model:

A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners or stakeholders for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.
Put simply, a business model tracks the cash from customer, through your organisation, to suppliers, staff, taxes and the business owners.

If you're still unhappy with the term, think of it as a *documented design* of the business.

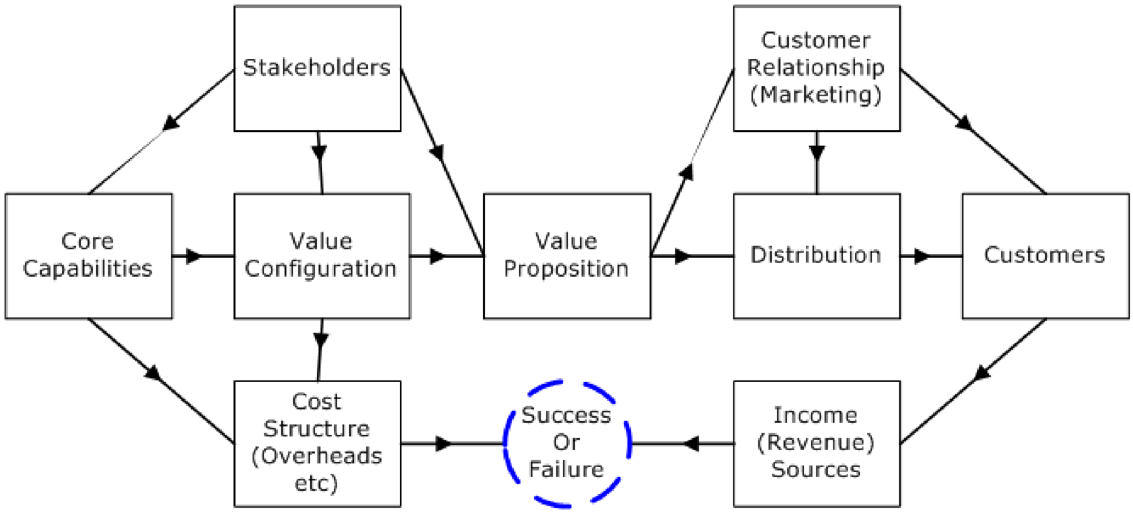
By examining your business model, by looking at how money moves through the organisation, you will define your business processes. You will see not only how you make money, but how you should make money. This examination often results in business increasing revenue as costly processes are removed or better defined and more productive processes are increased – or even discovered!

Business models actually date back to the earliest days of business – the model describes the way in which an organisation makes money. A restaurant's model is cooking and serving food to customers – this is how it makes money. A web site is more complex as there are a number of ways a product or service can be sold on the site – advertising paid for by other companies allows the web site owner to sell its services for free – Google is free to you and me. Other sites actually become the store (the on-line store) from which customers buy goods.

You started your business with the idea of making money – so in the beginning there was a **Value Proposition** – we can do something and get paid for doing it (the good idea) – and make enough money to pay people to work for us, to market our idea, to sell it; enough money to pay our suppliers and the bank, and ourselves so that we can have a lifestyle of choice. This is at the core of the model.

Let's expand on the "follow the money" idea and look at a more detailed business model diagram.

The 9 Building Blocks for a Business Model



There are 9 main building blocks that help us describe the model:

- The **value proposition** of what is being sold (the good idea);
- The **customers** who will buy this product;
- The communication and **distribution channels**to reach customers and offer the value proposition;
- The **relationships** (marketing and sales) established with customers;
- The **core capabilities**needed to make the business model possible;
- The **value configuration** of activitiesto implement the business model;
- The **stakeholders**and their motivations of coming together to make the business model happen;
- The **income (revenue) streams** generated by the business model constituting the revenue model;
- The **cost structure** of the business model.

So what is a Value Proposition?

It is a description of the customer need (sometimes referred to as a problem), the product that addresses the need, and the value of the product from the customer's perspective. Why you're selling what you're selling at that price. This is your innovative idea never before seen by the public!

Another term used in business models is **market segment** – this means the group of customers you wish to target, recognizing that different market segments have different needs. What is different about your product that makes it attractive to this group of customers? What makes it special, given that you probably can't sell something that is attractive to everyone?

Linked to this is the **competitive strategy** - how the organisation will try to develop a sustainable competitive advantage – by being cheaper, better quality (perhaps more expensive), being different or by fulfilling a niche market.

Michael Porter, a Professor at Harvard Business School, identified a set of inter-related generic activities common to a wide range of organisations. His model is known as the **value chain** and is:

Value Chain Activities								
Inbound Logistics	>	Operations	>	Outbound Logistics	>	Marketing & Sales	>	Service

The primary goal is to create value in selling that exceeds the costs of providing the product – thus making a profit.

- Inbound logistics include receiving goods/stock, warehousing, and inventory control of all input materials.
- Operations are the value-creating activities that transform the inputs into the final product.
- Outbound logistics are the activities required to get the finished product to the customer, including

warehousing, order fulfilment, etc.
- Marketing & Sales are those activities associated with getting buyers to purchase the product, including channel selection, advertising, pricing, etc.
- Service activities are those that maintain and enhance the product's value including customer support, repair services, etc.

Logistics is a relatively new buzz word and is best defined as the management of the flow of goods, information and other resources, including energy and people, between the point of origin and the point of consumption in order to meet the requirements of consumers (frequently, and originally, military organizations). Logistics involve the integration of information, transportation, and inventory; warehousing, material-handling, and packaging.
The basic value chain activities (follow the money) are made possible by support activities, and Porter identified four generic categories of support activities, the details of which are of course industry-specific.

- Procurement - the function of purchasing the raw materials and other inputs used in the value-creating activities.
- Technology Development - includes research and development, process automation, and other technology development used to support the value-chain activities.
- Human Resource Management - the activities associated with recruiting, development, and compensation of employees.
- Firm Infrastructure - includes activities such as finance, legal, quality management, etc.

Support activities often are viewed as "overhead", but a number of organisations have successfully used them to create a competitive advantage, for example, by developing a cost advantage through clever use of IT, or outsourcing some of the work of a particular department – such as Human Resources for small business who cannot afford (but need) the competencies of a full time HR manager.
By analysing the business model or value chain for each, process flows can be mapped and these will show, in isolation, the individual value creating activities. Or so we hope – often this is the only time when organisations realise that they are doing something which is costing them money. That said, there are goods and services known as “loss leaders” which are deliberately placed into the market to attract customers to other value creating products and services.
Once these discrete activities are defined, links between activities need to be identified where they exist. Such a link is present if the performance of cost of one activity affects that of another.
The value chain also is useful in making “outsourcing” decisions. Understanding the links between activities can lead to better make it ourselves or buy it in already made decisions that can result in either a cost advantage or a differentiation advantage.
Michael Porter identified these two basic types of competitive advantage a firm can have over its rivals:

- Cost
- Differentiation
- A Cost Advantage exists where an organisation can deliver the same benefits as its competitors to the market but at a lower cost.
- A Differentiation Advantage is when the benefits exceed those of the competitor.

A competitive advantage allows an organisation to create better value for its customers and better profits for itself.

So, Business Process Improvement then works by:

- Defining the organisation’s strategic goals and purposes – who are we, what do we do and why do we do it?
- Determining who the organisations customers (and stakeholders) are – who do we serve?
- Aligning the processes to realise the goals – how can we do it better, smarter?

It is that final bullet point that is critical – by examining the processes of who does what to what (value configuration or value chain activities), the organisation will be able to map the business processes and see where improvements can be made.

To end with a simple example:

Imagine a coffee shop – the idea is to sell the best coffee in town with some of the best food as well.

The coffee shop owner’s original idea was to buy the ingredients of a great coffee, to hire staff that could make great coffee and hire staff that could wait and clear tables and another set of staff that can make the best food to accompany the coffee and sell to the customers.

The brand “SupaCoffee” was designed and the shop opened with a fanfare of free coffees all round! There seemed to be more staff than customers most of the time.

By doing a value chain (business improvement) analysis the owners might discover:

- 2 separate “types” of counter staff were needed – one to take the order and one to make the coffee – this speeded up the process of getting the customer’s order to the customer actually getting the coffee;
- Maybe a separate coffee machine was needed for take-away coffee only;
- These same staff could also deliver the food and clear tables – it was not always that busy;
- It is cheaper to buy their food in already made (to their specifications);
- Adding 50c to a cup of coffee created the impression that the coffee was better because they never charged for a extra shot;
- Telling customers that they didn’t charge for an extra shot (differentiation);
- Only two sizes of coffee were ever asked for – medium and large, so small was removed from the menu.

The result – “SupaCoffee” became the best in town and was used almost exclusively by those who preferred the brand they sold – after all each to his own.

Creating Possibilities and Finding Solutions