

Optimizing your core processes to execute successfully

Our innovation business model framework comprises five primary components: markets, products, processes, people and economics (see [Innovation business model](#)). In this paper, we explore the third component of this framework – processes. For an introduction to how the model was developed and how it compares to others, see [What is a business model? A new approach](#). For an overview of the first component see [Selecting and understanding markets for technology innovation](#), and for the second component see [Developing a winning product offering](#).

By “processes”, we mean all the activities a business undertakes to create, market and deliver its product to its market. It is essentially the same idea as Michael Porter’s value chain or McKinsey’s business system^{1,2}. The processes or value chain within your business are a subcomponent of the industry value chain (which Porter calls the value system and Henry Chesbrough calls the value network³).

The goal of the processes component of a business model is to define the optimal way for the business to provide its products to its markets. This paper presents a framework and guidelines to enable you to do just that.

Why are processes an important component of the business model?

Processes are a key concept in business model design, because your processes determine whether or not you can successfully and profitably offer and deliver your product to your market. Basically, they define your ability to execute, down to the detail of what everyone in the businesses is doing every day.

In mature businesses, where the market is well understood and shared between several competitors all of whom have broadly similar offerings, processes are even more important. In these environments, implementing good processes – those that effectively accomplish the right quality results as efficiently as possible – are often the difference between success and failure.

For many innovation-driven new ventures, however, the key to success is identifying a new “blue ocean” market⁴ or coming up with a radically better value proposition. Yet even here, processes are often still a critical factor in the business model. For example, for Southwest Airlines or Starbucks to be able to deliver on their game changing product market innovations, they both needed to develop and implement innovative value chains.

For some innovation-driven businesses, processes are the predominant factor. Arguably the core innovation of many web-based business models is to do with processes, rather than markets or products. For example, online retailing, online banking and electronic medical records were all made possible by a disruptive process innovation – the Internet.

What are the typical problems with processes?

Many entrepreneurs and corporate innovators struggle to implement good processes. It is common to see new ventures waste substantial amounts of time and capital on poorly designed and executed process models. Key problems that we have seen repeatedly include:

- Not doing things that need to be done.
- Doing things that don't need to be done.
- Doing things badly or inefficiently (or both).
- Having the wrong people do things.
- Failure to properly understand the revenue and cost impact of each activity.
- Failure to understand the total industry value chain.
- Failure to think through where the business should sit in the industry value chain.

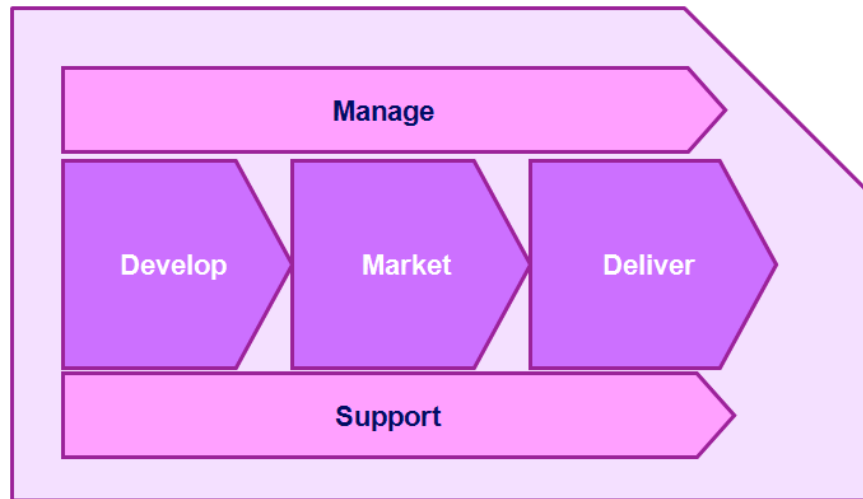
One common cause of many of these problems is that we all see the world through the perspectives of our experience, values and personal skills. In many cases, managers of new ventures simply try to implement the recipe they learned in previous companies, even though it doesn't fit. (This happens a lot more than you might expect. Don't be surprised when that experienced senior sales executive, previously at GE, Siemens and IBM, struggles to sell your innovative social networking concept to small businesses).

Another cause is that few managers have a clear, holistic understanding of all the processes, disciplines and key activities needed in a business. For example, your VP Product Development has an engineering background, so doesn't properly understand and cannot implement effective product management, or your VP Sales and Marketing is really a salesperson, and has only a superficial knowledge of marketing. These functional backgrounds and biases are visibly at work even amongst CEOs. Take three companies led respectively by CEOs from finance, marketing and engineering backgrounds, and you will see how their core processes reflect their leaders' biases.

Primary processes

In order to address these concerns, and to enable venture managers to think through the design of their processes systematically, we created the process framework discussed in the rest of this paper. This framework has been developed through extensive experience designing the core processes for dozens of businesses. It has been developed specifically for technology-based businesses offering products and services, but it could be modified to reflect the processes within other types of businesses.

The framework comprises five primary processes: Develop, Market, Deliver, Manage and Support.



Each of these processes has a primary role. The three central processes reflect the core value creating activities in a business:

- Develop - research and development: understanding customers and creating the right solutions
- Market - sales and marketing: attracting, winning and growing customers
- Deliver- operations and customer service: producing, delivering and supporting solutions.

This idea was created by McKinsey in 1988 as an evolution of their business system concept. They called it the value delivery system⁵. In our experience, it remains the simplest and most powerful way to think about the central, critical processes in a business.

In addition to these three central processes from the McKinsey framework, we have added two other primary processes to ensure our processes framework encompasses everything in the business:

- Manage – general management: leading the team and ensuring business success
- Support - finance, HR, IT, legal, facilities: managing the business' resources.

While these Support activities are clearly important, it is really the four primary processes of Develop, Market, Deliver and Manage that determine the success or failure of the business.

What makes this framework powerful is that we have broken down each of the four primary processes into two disciplines, and each discipline into three core activities. In total therefore, there are eight key disciplines and twenty four core activities that collectively create value in technology-based businesses (Table 1).

Any experienced technology business manager will recognize the disciplines listed, and will probably be familiar with many, if not all, the core activities listed. While clearly it should be adapted to each individual business, what is useful about this tool is that it is a definitive list of everything that needs to be done, and does not include anything that does not need to be done, in a typical technology business. Furthermore, it defines processes at the right level of detail for business model design.

In practice, we have used this tool with many businesses to quickly analyze the strengths and weaknesses of their current processes, rapidly identify where improvements are needed, and clearly define the right processes that need to be put in place.

Table 1: the primary processes, key disciplines and core activities in technology businesses

Primary processes	Key disciplines	Core activities
Develop (research and development) <i>understanding customers and creating the right solutions</i>	Engineering	Design: <i>technical, usability and aesthetic</i> Development: <i>prototype, component, system, alpha, beta</i> Testing: <i>functional and usability</i>
	Product management	Market analysis: <i>market requirements and competitive analysis</i> Product definition: <i>definition of whole solution including pricing</i> Product marketing: <i>solution expertise for sales / marketing</i>
Market (sales and marketing) <i>attracting, winning and growing customers</i>	Marketing	Messaging: <i>branding, website, collateral, presentations</i> Relationship development: <i>one-to-one and community</i> Reputation building: <i>third party media and events</i>
	Sales	Direct sales: <i>direct to customer, usually high value</i> Channel sales: <i>through middleman, usually intermediate value</i> Self-service sales: <i>customer buys online, usually low value</i>
Deliver (operations and customer service) <i>producing, delivering and supporting solutions</i>	Operations	Production: <i>sourcing / converting inputs into products / services</i> Delivery: <i>delivering products / services to customers</i> Orders: <i>managing customer orders and returns</i>
	Customer service	Value realization: <i>helping customer get full value from solution</i> Problem resolution: <i>solving customer problems</i> Proactive care: <i>ongoing monitoring to add value / solve problems</i>
Manage (general management) <i>leading the team and ensuring business success</i>	Planning and control	Strategic planning / control: <i>business model and strategy</i> Operational planning / control: <i>tactical execution management</i> Governance: <i>policies, procedures and compliance</i>
	Stakeholder management	Engage: <i>identifying and attracting team / investors / partners</i> Manage: <i>team / investor / partner contributions</i> Motivate: <i>team / investor / partner rewards</i>
Support (internal services) <i>managing the business' resources</i>	Finance, HR, IT, legal, facilities	Each support discipline comprises a number of core activities, but usually not necessary to define them for business model design

The way the key disciplines and core activities have been grouped within each primary process is deliberate. Each of the primary processes requires its two disciplines to be able to effectively fulfill its role. For example, the Market process needs both the sales and marketing disciplines to be able to attract, win and grow customers. Similarly, each discipline must comprise the set of core activities listed. If any of these disciplines and core activities are missing, partially implemented or implemented badly, the business will see a direct bottom line impact.

Note that the two core disciplines within each primary process are fundamentally different. Each of these disciplines requires distinct skills, and it is rare, in our experience, for people to be truly excellent at more than one of them. It is a constant challenge to blend the two disciplines in each of these primary processes. They need to work together seamlessly to execute their primary process, yet they see the world through very different eyes.

This has important implications for who should be on your team, how you assign responsibilities, and how you design your organization. While there are strong arguments to have one person leading each of the five primary processes, the fact that few people know both disciplines well argues for having a leader for each of the eight disciplines, and perhaps a ninth for Support. However, many new ventures do not have budget for that many executives, so in practice end up assigning more than one discipline to a single executive.

What further confuses matters, and ensures suboptimal performance, is assigning responsibility to one executive for disciplines from different primary processes. For example, it is not uncommon for business to have one person managing engineering and operations, or another managing marketing and product management. Even in very small companies, these kinds of organization structures typically do not work well, as the executive will focus on the primary process and key discipline with which he or she is most familiar, to the detriment of the others.

Develop – research and development

The research and development process is responsible for defining two foundations of the business model – the market and product. We use “research” because Develop includes market research and research into different technologies to decide which makes best sense for the product. It does not include primary or applied research, which we see as an upfront investment that is not part of the business model.

In many technology-based companies, engineering is the driving discipline. However, for an optimal business model, engineering should be given no greater or less weight than the other five central disciplines (those in Develop, Market and Deliver) that collectively are at the heart of creating value in a business.

In many engineering groups, particularly early stage ventures, the emphasis is on development. However, arguably design and testing create more value than development, so it is important to ensure that all three core engineering activities receive proper attention and are executed well.

Product management is a critical discipline that is often poorly understood or only partially implemented in new ventures. For optimal impact, product management should not be part of the marketing or engineering functions, but should be its own discipline, partnered with but separate from engineering, and working closely with sales, marketing, operations and customer service.

One of the common flashpoints in a technology business is the tension between product management and engineering. Venture leaders need to pay this constant attention, as a breakdown in the Develop process will torpedo the Market and Deliver processes.

Market – sales and marketing

The Market process is the one that investors are typically most interested in hearing about and that many innovators find most challenging. This emphasis on sales and marketing to the exclusion of the other primary processes is understandable, but actually is often the result of flawed thinking. The real secret to winning customers lies in the market and product components of your business model, not your sales and marketing process. Selling a clearly superior solution to a large market with urgent, unmet needs is always going to be a lot easier than selling mediocre products to people who don't want them! Sales and marketing is as vital as the other primary processes, but it cannot make up for fundamental product and market weaknesses.

The Market process should be designed around the customer's buying cycle – how the customer learns about, evaluates and decides to purchase a solution – and not your sales cycle. Marketing is responsible for the first half of the buying cycle – from initial awareness through to the point at which the customer is interested in evaluating the solution. At that stage, sales takes over, and is responsible for helping customers properly understand the solution in the context of their specific needs, evaluate it against their other options, and make the decision to purchase as easy and enjoyable as possible.

To define an effective sales and marketing capability that effectively and continually brings in new customers, think through each of the six core marketing and sales activities listed in Table 1, and determine what mix of these activities, and what specific tactics within each, will best meet your customer's needs across their buying cycle.

Like with the other primary processes, there are often tensions between marketing and sales that need to be managed.

Deliver – operations and customer service

The Deliver process encompasses delivering and supporting the complete value proposition – products, customer experience and the “whole solution” – from initial purchase until the product is no longer in use by the customer.

The operations discipline includes producing and delivering both products and services. With professional services, in some cases production and delivery happens simultaneously at the customer and in other cases production can be separated from delivery (for example, a custom application is developed and then later implemented at the customer).

The nature of the core activities within operations will vary widely depending on the particular product market, but the activities listed in Table 1 are normally recognizable in most technology-based businesses.

Yet again, within the Deliver process we see two disciplines with different perspectives. The core focus within operations is typically on quality and efficiency. Customer service, by contrast, focuses on the customer, and doing everything necessary to ensure customer satisfaction.

Manage – general management

The general management process comprises two key disciplines: planning and control (which is essentially about managing the process component of the business model), and stakeholder management (managing the people component of the business model).

These are usually the two core responsibilities of the CEO, though in some cases he or she delegates some of these responsibilities to other people. It is not untypical to see a CEO who is more of a people person focus on stakeholder management, while a COO focuses on planning and control. Similarly, a CEO more comfortable in the planning and control discipline may have a VP Business Development doing quite a bit of stakeholder management.

Support – internal service activities

The Support process is essentially about managing the business’ resources – its cash, people, data, etc. The key disciplines are typically finance, human resources, information technology, legal and facilities management. Each of these is distinctly different, with its own language, skills and world view.

These disciplines provide services internally to the “line” managers of the Develop, Market, Deliver and Manage processes. In large corporations these functions often assume great importance, particularly where the businesses are decentralized and the primary function of the corporate center is to provide these internal services to the businesses.

For early stage businesses, however, these functions should generally be outsourced as much as possible, as they tend to be fairly standard and horizontal across businesses, and they drive

value only indirectly. It is generally best not to get distracted by these support functions, and rather focus on optimizing the other four primary processes.

Value and cost analysis

Once you have determined the complete set of primary processes, key disciplines and core activities in your business model, you should do a value and cost analysis at the level of the core activities. For each core activity, define:

- To what extent this activity is currently a strength or weakness
- What value this activity drives
- What costs are associated with this activity.

You then can explore all options to improve both the effectiveness (value created) and efficiency (cost) of those core activities which are currently rated weak, create little value and / or are high cost.

One important option to consider is what should be done internally and what should be outsourced. Several writers have made the case for keeping core skills in-house and outsourcing the rest^{6,7}, but we believe that each business model is unique and should be designed accordingly. In some cases, as discussed below, insourcing activities that the industry has traditionally outsourced can create huge value.

Industry value chain analysis

Designing your process model should be done within the broader context of understanding the total value chain in your market, and where your business would best be positioned within the industry value chain. Ideally, this includes analyzing the total profit potential across your industry value chain, and then exploring whether the value chain can be reconfigured in such a way as to change the total profit potential, or to capture more of the value in the part of the chain where your business will focus.

For example, the total profit potential of the PC industry value chain prior to Dell was shared between manufacturers, distributors and value added resellers. By eliminating the channels, Dell greatly increased the total profit potential of that part of the value chain that accrued to manufacturers, and in fact was able to capture the majority of that incremental industry value for itself.

It did so in large part through its innovative process model. Dell was able to eliminate distributors and value added resellers by *insourcing* some of their key activities, getting *customers* to take over some activities, and by *eliminating* some activities. For Dell, designing a new process model was very valuable indeed!

* * *

In summary, this paper has presented a framework and set of guidelines to help you design the process component of your business model.

- Processes are critical, because they are how you execute – without processes, nothing happens!
- Many new ventures have suboptimal processes, because of the prior experience and biases of their leaders, and a lack of a holistic way to think about processes.
- Businesses are made up of five primary processes; the four processes most important in a new venture, Develop, Market, Deliver and Manage, comprise eight key disciplines and twenty four core activities; the fifth, Support, should generally be outsourced as much as possible in the early years.
- There are number of guidelines to consider as you design each of your primary processes.
- Once you have identified all your processes, disciplines and core activities, evaluate your current strengths and weaknesses, and conduct a value and cost analysis as a basis for rethinking your process model.
- Conduct an industry value chain analysis to identify the current and future profit potential in your industry as a context for your process and business model design.

References

1. Porter, Michael. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Free Press, 1985
2. Gluck, Frederick W. "Strategic choices and research allocation," *The McKinsey Quarterly*, 1980 Number 1
3. Chesbrough, Henry. *Open Business Models*. Boston: Harvard Business School Press, 2006
4. Kim, W. Chan, and Renee Mauborgne. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant*. Boston: Harvard Business School Press, 2004
5. Lanning, M. and Michaels, E. *A Business is a Value Delivery System*. McKinsey Staff Paper, 1988
6. Hamel, Gary, and C.K. Prahalad. *Competing for the Future*. Boston: Harvard Business School Press, 1994
7. Moore, Geoffrey A. *Dealing With Darwin*. New York: Portfolio, 2005

About the author

Michael Lurie is Founder and CEO of Blue Mine Group in San Diego, CA. Blue Mine Group provides courses, workshops and consulting in business model design for technology innovation.