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Business Modeling: Is That What We Do?

Might as well face it: "BPM" is a burdensome, and maybe boring label. No matter how important we think business processes are to organizations, the term "BPM" leaves many senior leaders nodding off or delegating the subject as swiftly as possible. Nobody since Michael Hammer has made a case for the vital importance of business processes in a manner that makes executives sit up and listen.

But aside from lack of sizzle, the problem with BPM as the label for what I and others like me do is that it's actually not always accurate for describing our endeavors. The kind of work I am most often called in to do starts with a request to help an organization better understand itself. The request may be couched in terms such as wanting to implement process management or to adopt a process improvement methodology, but the starting point is confusion or lack of agreement about something significant regarding the organization: a lack of clarity or logic in its design, tensions and misalignments between different departments or regions, ambiguities about how work is accomplished, discontinuities in goals, decisions and actions, a major change being pondered or already underway but with dismaying results...

Inevitably, to understand the situation and before seeking any solution, I will *model* the organization. That is, I will draw a picture—often many pictures, with different layers and levels of detail—to make visible what is going on. The models are meant initially to help *me*, but most of the time they also become deliverables of value to the client, who by means of the models can understand and articulate something they could not before from their point of view inside the organization. And even though the modeling effort then may proceed to further analysis and solution-building, what sometime lingers as the most valuable element of the engagement was the modeling.

The frame of reference my colleagues and I use to do modeling is what we call the Value Creation Hierarchy (shown in Figure 1). It is a multi-level set of models meant to depict a given business at deeper and deeper levels of granularity. Level 1 models an entire business in its context of market, supplier and resources and competition; Level 2 depicts the organization's value chain for creating, selling and delivering products and services to customers; Level 3 is a more detailed picture of those processing sub-systems; Level 4 drills down into single processes; and Level 5 depicts the resource level where human performers, technology are doing the work. Using this hierarchy enables us to get at performance problems and opportunities at whatever level they exist, but no matter what level we eventually drill down to, we start by trying to model the whole business. We're not the only BPM practitioners doing this, of course, and there are numerous other tools for mapping out an organization's landscape, but the point is that the modeling is about much more than a given company's processes—it creates visual representations of all its vital parts.

What is Business Modeling?

So I wonder, is "business modeling" is a better description of what some of us do than BPM? Unfortunately, the term may be just as problematic as BPM, though vastly more popular. It has become a favorite buzzword in the press, typically used to provide a shorthand description of what a business offers or how it operates or how it differentiates itself from others. For a time I collected references to business model from newspapers, magazines and television but quit after about a hundred. For example, Uber's use of surge pricing was recently described in the Wall Street Journal as its business model. But that sounds to me more like a company practice. Other business model statements sound like strategies, or pricing formulas or organizational types (for example, a "franchise").

A little research into usage of the term "business model" reveals that its origins are uncertain. While some writers trace it to Peter Drucker, he never used the term[i]. What is evident is that the term gained popularity during the dot.com craze of the late 1990's as a handy way to describe in short order the dozens of schemes to make money off the Internet. In this context, Michael Lewis defined a business model as "All it meant was how you planned to make money".[ii] It was kind of like a pitch that screenwriters make to sell an idea for a movie. And indeed a lot of business model statements are just a single statement about pricing, selling, or product positioning. There are long lists of these statements collected in books and articles, the one by Mark Johnson in his book *Seizing the White Space*[iii] being the most prominent. The lists go on and on, but here are a few:

- Razor and blades (sell a cheap product, like a razor, and charge dearly for accessories or replacement parts, such as blades, printer cartridges, etc.)
- Bricks and clicks (physical store as an extension of an on-line store, e.g., Apple)
- Subscription model (borrowed from magazines but now spread widely throughout the Internet)
- Network Effect (create a product in which the value to each user increases as more people use it, e.g., Facebook)[iv]

But "business model" seems a rather grand term for just pricing or positioning. Out of these collections of business model statements there seem to be at least four dimensions:

- What value a company has to offer (i.e., its value proposition);
- How it intends to deliver on that promise of value (i.e., its processes);
- How it intends to make money (i.e., its financial design);
- How it intends to govern the business (i.e., its policies, measures, standards, and business rules).

This definition comes close to the one offered by another well-known commentator on business models, Clay Christensen, professor at Harvard Business School, and authority on disruptive technologies. He includes four major elements in his definition of a business model[v]—the customer value proposition, the processes, the profit formula and the resources—combined in some way to make the offering a disrupter of the status quo and hard to compete with or to copy (which sounds a lot like Michael Porter's definition of a sustainable competitive advantage).

A Redefinition of BPM

Adding the resources from Christensen's definition, we now have a five-dimensional model. Does it adequately and accurately describe the work that goes on in some BPM projects, in efforts like those described earlier, that begin with modeling the current organization and then going on to something else such as redesigning processes or installing process metrics? If the project focus is narrow, let's say dealing with a single process or a performance issue confined to a job role, probably not. It would be rather grandiose to call such work business modeling. But larger-scale projects can be considerably more than process projects; they can touch on an organization's mission, strategy, value proposition, policies, roles, technologies, marketing—in short, anything relevant to the organization's need.

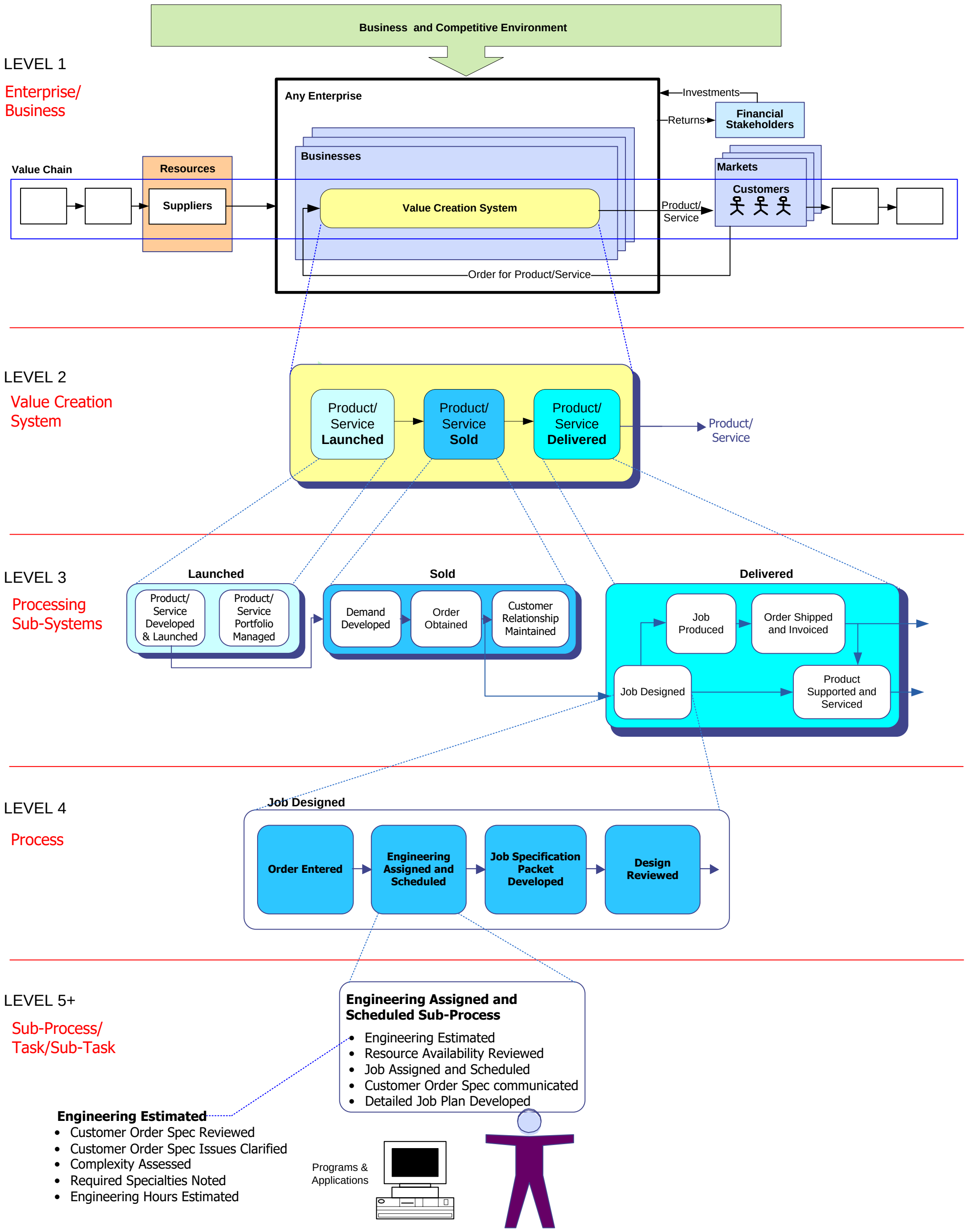
Here are three examples from my recent experience and that of some colleagues:

- A software services company provides various kinds of technical support to customers, and as the business grew the regions established their own ways of doing things. For all kinds of good reasons, top management is now demanding consistency in service offerings and delivery. Getting to one way of doing things required modeling and redesigning virtually all key processes, changing the formulas for pricing, budgeting and cost allocation, creating worldwide databases of service offerings, technical resources, documentation, and other paraphernalia of running the business.
- A medical services corporation buys up small but lucrative local medical companies and then clones them in other areas of the country with high growth potential. Our role has been to go into a potential acquisition target and create models of everything we see: the processes, the jobs, the structure, the business rules and practices, etc., so that they can be analyzed and if purchased, successfully duplicated.
- A product company reorganized its sales and marketing functions to move from being heavily brand-centric to customer and market-focused. The changes caused considerable confusion and conflict at job level and also produced a host of "who's-on-first" ambiguities about the design and participation of roles in key processes. Our task was to collect the data on the current situation across jobs, regions, functions and processes and guide a team in redesigning several major processes to meet the new requirements.

In all three of these examples there certainly was a substantial process element, but calling them BPM projects seems to fall short of their real scope and character. The work involved learning and modeling how the given business operated in detail. Were we not doing business modeling?

At least sometimes it seems valid to claim we are business modelers, or even business designers or redesigners. I don't actually expect the term "BPM" to be discarded by anybody who might read this Column. But I have begun to rebrand my own work as business modeling when the situation seems to call for emphasizing that the work will go beyond process. At times perhaps that would make sense for you.

Figure 1
The Value Creation Hierarchy



References

[i] Ovans, Andrea, "What is a Business Model?", *Harvard Business Review*, January 23, 2015

[ii] Ibid.

[iii] Johnson, Mark W., *Seizing the White Space: Business Model Innovation for Growth and Renewal, Harvard Business Press*, 2010.

[iv] Muelhausen, James, Business Models for Dummies, John Wiley & Sons, 2013.

[v] Christensen, Clayton M., Mark W. Johnson and Henning Kagermann, "Reinventing Your Business Model, Harvard Business Review, December 2008.