

Harmon on BPM Paul Harmon

Value Chains vs. Ecosystems

You hear a lot of talk these days about “business ecosystems.” Although the term has been used in a variety of trivial ways, there is an important concept that is worth thinking about. Organizations are exploring new Web-based business models that will require process analysts to think in new and different ways.

Let’s step back and think about what Michael Porter meant when he described a value chain [1]. He imagined that all of the activities within a firm were coordinated to produce a product or service – which was the value the firm offered its customers. We commonly diagram a value chain as I have in Figure 1.

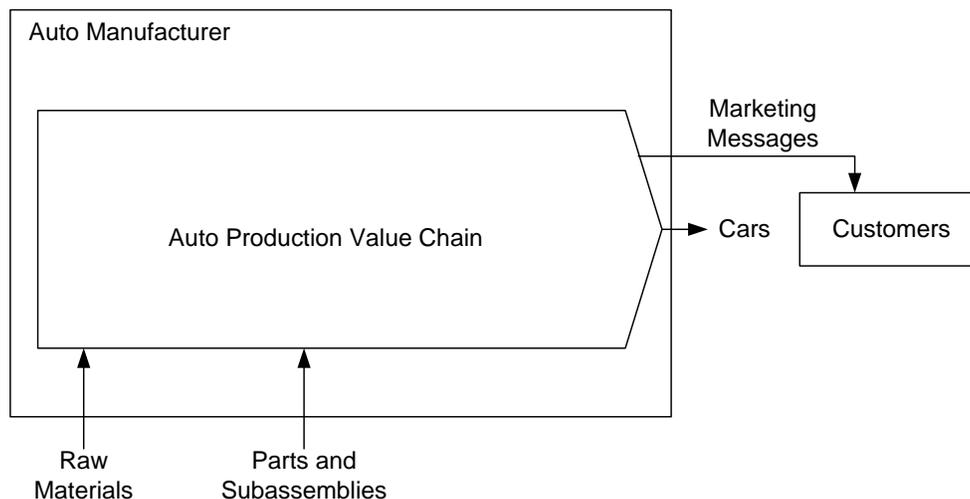


Figure 1. A company and a value chain.

Implicit in Porter’s use of the term – which, remember, he coined in 1985 – is the idea that the firm owns a plant or stores where it undertakes manufacturing or sales. To be more concrete, imagine that our value chain describes an auto manufacturing firm. The value chain, itself, is made up of all the activities involved in assembling and selling cars.

Now let’s move forward in time, and think about Amazon.com – and let’s focus only on Amazon’s ability to sell books, to keep things simple. Amazon sells books, but, like a book store, it doesn’t own books. It warehouses them, and, once it gets orders

from online customers, it uses UPS or some other deliver service to move the books from its warehouses to its customers. As I suggested, when I compared Amazon to a book store, there are plenty of other companies that use a similar model. They accumulate products and sell them to customers. The only real difference is that Amazon does it via the web and UPS and hence has a much larger reach.

Recently, Amazon has been extending its product line, and, today, you can buy a wide variety of products on Amazon. Amazon has become more like a Walmart superstore, where you can go to get almost anything you need. In support of its extended model, Amazon warehouses less, and serves increasingly as an intermediary. You go to Amazon on-line, choose, order and buy something, and then Amazon transmits your order to the company that manufactures the item and they ship it to you. In essence, Amazon is simply sitting in the middle of a network, routing information and purchase orders to various parties.

Or, let’s consider an even more recent company, Uber. Uber is a taxi company that doesn’t own any taxis. Uber just connects smartphone users with taxis, using the Web to facilitate communication. Uber really is in the middle of a network, routing requests to available drivers and taking a percentage for making the connections.

One can think of organizations like Amazon and Uber as having value chains, but they aren’t the kinds of value chains Porter was thinking about when he coined the term. They are “value chains” that extend well beyond the company that is managing the network – more like a supply chain than a traditional value chain. More important they produce product only when a customer asks for it rather than simply pumping products out. They are, in the newly popular term, “ecosystems.” It might be better to say that the company at the center is the “coordinating mechanism” within an ecosystem, but that gets a bit to complex.

Figure 2 shows three companies on a continuum. On the left we have a traditional company. The firm owns everything needed to manufacture its product and is engaged in all aspects of the production cycle, specifying exactly what parts will be like and overseeing marketing. On the right of the continuum we have a company like Uber which owns little but makes its money by organizing a network and bringing buyers and sellers together.

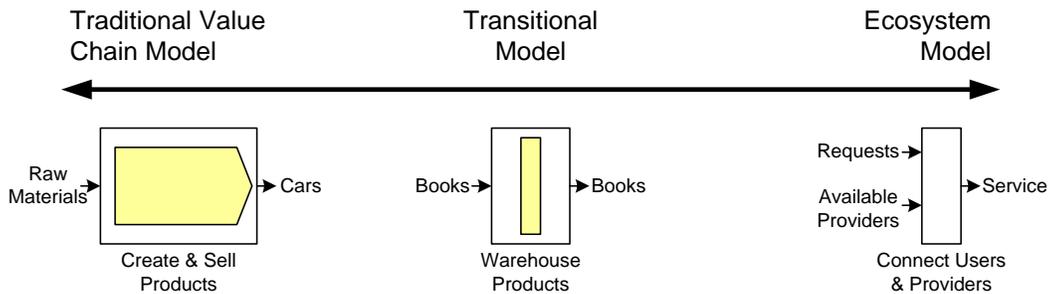


Figure 2. A Continuum from a Conventional Value Chain to an Ecosystem

Increasingly, process people are going to need to think about how to improve the efficiency and effectiveness of ecosystems. Undoubtedly, as with supply chains, committees, which include members of the various firms, will need to be used, and

process people will find that they are being called upon to build meta-process models and facilitate exchanges of information to coordinate the ecosystem's activities.

We will keep alert for information about this type of project and report on them as we hear of them. Now is the time to prepare for this new world of process optimization.

[1] Porter, Michiel. *Competitive Advantage*. Harvard Business School. 1985.

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In addition to his role as Executive Editor and Founder of Business Process Trends, Paul Harmon is Chief Consultant and Founder of Enterprise Alignment, a professional services company providing educational and consulting services to managers interested in understanding and implementing business process change.

Paul is a noted consultant, author and analyst concerned with applying new technologies to real-world business problems. He is the author of *Business Process Change: A Manager's Guide to Improving, Redesigning, and Automating Processes* (2003). He has previously co-authored *Developing E-business Systems and Architectures* (2001), *Understanding UML* (1998), and *Intelligent Software Systems Development* (1993). Mr. Harmon has served as a senior consultant and head of Cutter Consortium's Distributed Architecture practice. Between 1985 and 2000 Mr. Harmon wrote Cutter newsletters, including *Expert Systems Strategies*, *CASE Strategies*, and *Component Development Strategies*.

Paul has worked on major process redesign projects with Bank of America, Wells Fargo, Security Pacific, Prudential, and Citibank, among others. He is a member of ISPI and a Certified Performance Technologist. Paul is a widely respected keynote speaker and has developed and delivered workshops and seminars on a wide variety of topics to conferences and major corporations throughout the world.

Paul lives in San Francisco.

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