Value Chains and Business Processes

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There are many different approaches to business process management and improvement, and terms that should be common to all, are often used in different ways. In this Technical Brief, we want to define and standardize our usage of a few of these terms for our BPTrends readers.

The largest possible process in any organization is the **value chain**. Many managers associate value chains with the description provided by Michael Porter in his book, *Competitive Advantage*, published in 1985. According to Porter, a value chain includes everything that contributes to a major organizational output. By adding up all of the costs associated with each activity in a value chain, and subtracting the total from the revenue derived from the output, an organization can determine the profit margin for the output. Some organizations treat each individual product or service as an independent output. Most, however, lump related products together and only have a few value chains. Organizations typically support from 3 to 15 value chains. (See Figure 1.)

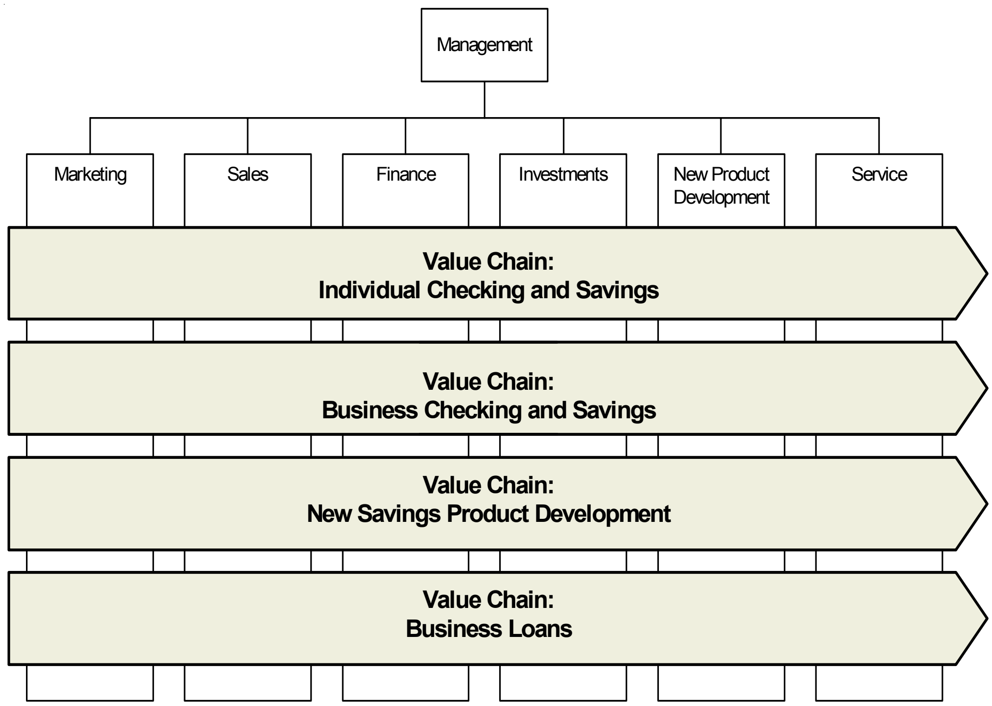

Figure 1. A financial organization that supports four value chains.

Figure 2 reproduces a figure very much like the one that Porter originally used to describe a value chain. The important thing to notice is that Porter includes all of the core business processes, including what we, today, might call the supply chain, CRM, new product development, and all of the support activities required to enable each of these core processes.

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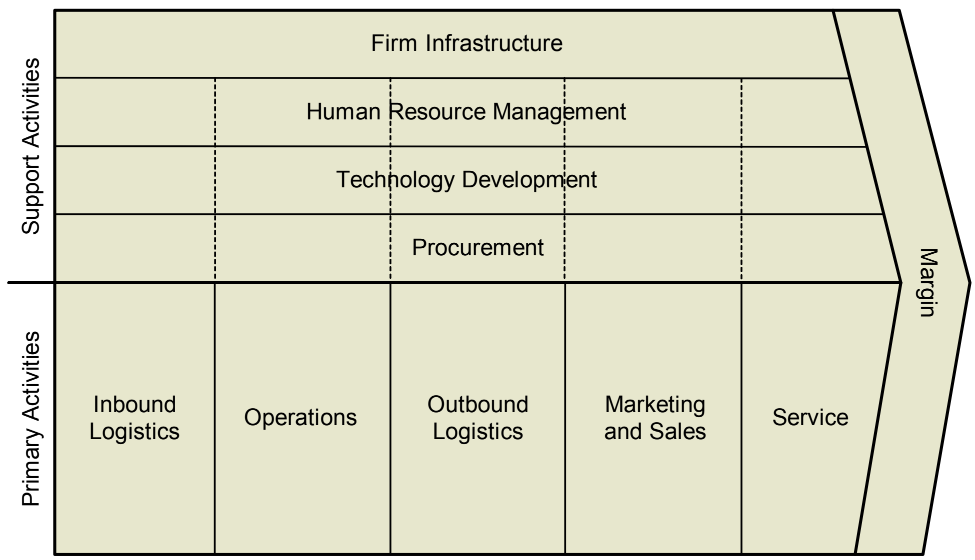

Figure 2. Porter's Value Chain.

At BPTrends, we've focused a lot of attention on business process frameworks, like the Supply Chain Council's SCOR framework, and the new initiatives underway to create similar frameworks for the new product design chain and the customer chain. In the abstract, these frameworks define business processes. Thus, there is a supply chain business process, a product design chain business process and a customer business process. A given value chain can include more than one supply chain. Similarly, each value chain will probably include at least one supply chain process.

We speak of a **Business Process Architecture** to refer to the organizational model that shows all of the value chains and all of the core business processes and major support processes that an organization relies upon. Thus, for every organization, there is a Business Process Architecture that is made up of one or more value chains, and a variety of Supply Chain, Customer and Product Development Business Processes, enabled by several Support Processes.

Everyone has a slightly different way of ordering the various levels of processes that make up a **process hierarchy**. The one we use is illustrated in Figure 3, on the next page.

We don't claim that these definitions are the only definitions. We have, however, identified the definitions we believe are the most widely accepted, standardized on them, and will try to use them consistently in all our publications.

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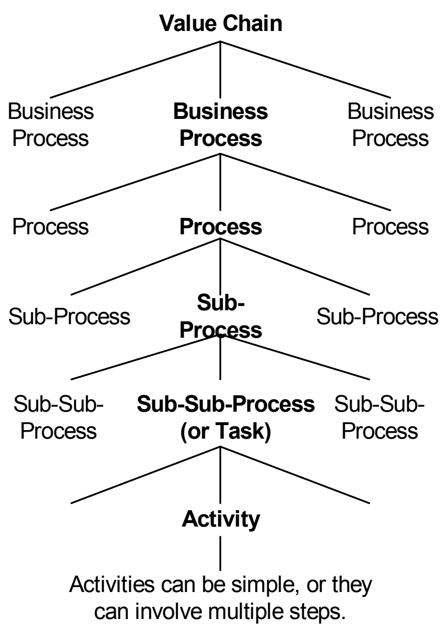

A **value chain** usually describes a major line of business. An organization has from one to a few value chains.

A value chain is usually decomposed into from 3 to 7 **business processes**. (e.g. a supply chain, a new product development process.)

Depending on the nature of the business process, it can include a few todozens of **processes**.

Processes usually contain from 3 to 7 **sub-processes.**

Depending on the nature of the sub-process, it many contain **sub-sub processes** and even sub-sub-sub processes to any arbitrary depth. (Sometimes called tasks to simplify things.)

Activities are the lowest level process we show on our diagrams. They are, in essence, the smallest sub-process we want to describe.

Figure 3. The BPTrends Process Hierarchy.

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