



The Value Of Value Chain Analysis In Transforming Your Business

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I have a different take on value chain analysis. Most think of it as positioning a business within its ecosystem. I think of a *value chain* as a graphical representation of all of the work that must be done by a business or work area in order to provide its goods/services (i.e., “value”) to its customers.



Value chains are a valuable means of presenting a normalized view of the business. It is free from redundancies and non-value added work activities. An observer can clearly see how work activities can be strung together to forge a new, high-quality process design.

When working to transform a business, a *value chain* should be built for each business area or department. These models (and the analysis of them) are valuable for presenting new and different ways of thinking about the business. Because *value chains* are independent of existing organizational structures, staff and work locations, they are less intimidating to the management and staff that have a vested interest in maintaining the status quo. People are less likely to resist any recommendations for dramatic change in their area of the business, if it comes in an objective, non-threatening way. So, value chain analysis makes a nice centerpiece to your transformation effort.

How It Works

Value chains are comprised of core work activities. You can think of core work activities as generic bundles of effort, which have been stripped free from any association to the current workplace environment. Like the cogs in a machine, these core work activities make the *value chain* work. In fact, we can think of a *value chain* as really just a network of core work activities.

By definition, a *value chain* is organized into five sections, or categories. All the work performed by any organization or department can be grouped into these five basic categories:

- **Plan**– which contains a collection of core work activities that support the planning-related effort within a business area. For example, Budgeting and establishing operating procedures could be core activities here;
- **Staff**– which contains a collection of core work activities that support staffing activities within a business area. For example, work assignments and measuring performance could be core activities here;
- **Train**– which contains a collection of core work activities that support training actions within a business area. For example, determining skill gaps and training staff could be core activities here;
- **Perform**– which contains a collection of core work activities that support the key mission of the department. For example, managing loss reporting and negotiating settlements could be core activities of an insurance carrier’s claims department, while assessing credit risk and originating loans could be core activities for a bank’s loan department;
- **Support**– which contains a collection of core work activities that are performed in the support of all the other core work activities in the *value chain*. For example, providing IT support or delivering legal services could be core activities here.

Generic by design, the core work activities that comprise a value chain should have no reference to the specific business units within the company, and that no chain-of-command can be inferred from the value chain’s depiction of its core work processes.

Clearly, a *value chain* represents a major departure from the way the typical company thinks of depicting business function. Like any good transformation effort, this style of analysis will make staff “think out of the box” and truly redefine itself – which is what transformation is really all about.

To close, once the *value chains* are defined for a business, each core business activity should be thoroughly documented. The format includes a brief description of the core work activity, a high-level event model which depicts the workflow within the core work activity, and separate discussions of the related *people*, *process* and *technology* issues that underpin each one.

Once fully documented, the *value chain* represents the transformation team's recommended work environment. All that is left to do is develop the plans for the projects that are needed to actualize the new workflow and institute a process for continual change. **Reach out to me** to learn more about value chain analysis.