

The Business Design Primer

A Report By
Xalles Limited

Why Business Design Cannot Be Learned From Business Management School

If you read the curriculum of most Business Management Schools you will read about finance, operations, sales and marketing, and product management. Not often will you read about business design. What is business design and why it is important? And why can you not learn this information from a Management School? Let's examine this last question first.

The important concept to keep in mind is that there is not one right business design for any particular company, industry, economic cycle, product, or management style. To create a good business design, the business leaders and managers need to take appropriate steps to effectively analyse their concept and evaluate its fit with customers, develop multiple business model options, and create processes, organizations, and delivery methods that all support each other. It is easy for anyone to examine any company and determine where the company has not followed through on the business and value model. There are many cases where processes support the model, but the organization is not formed around the processes. There are cases where the product or service has been beautifully designed around a wonderfully profitable value proposition only to have the delivery methods to the customer inappropriate. These companies then wonder why they are not as profitable as they should be and why customer satisfaction is not high for people using a great product.

The number of variations possible in creating a good business design make it almost impossible for learning institutions to teach in traditional forms. You can look at case studies and try to perform hindsight analysis on the company or business line from the recent past but the fact that this is being done in hindsight prevents you from being able to apply all that knowledge to a future scenario. There is an inherent hindsight set of biases that make this analysis more complicated. The only way to design a good business design is to actually do the business design, for a real situation, in a real economy, with real employees, corporate finances, and so on. Obviously not a task easily replicated in a business school.

The Weakest or Strongest Link

The art and science of business design is one of the fundamental building blocks to successful business management. This report will cover a basic explanation of business design, how to analyse an existing design and how to create a new design for your business. There are many examples of good products with bad business designs. There are also many examples of companies with good service and vision but poor business designs. Fortunately there are also examples of successful companies with good business designs that are up to date.

The business design chosen for a company or business/product line can become your weakest link in the chain from concept to operations if not designed appropriately for the markets, products, and organization involved. It can also become your strongest link when designed correctly at the right time. It can shoulder the burden of product failures when experimentation fails. It can suffer through recessionary times and keep your product or company profitable when revenues fall. It can be your anchor when critics call for management change and reorganizations because of negative market sentiment or projections not being realized as anticipated. A good business design can help the corporate leaders focus on how to prioritize initiatives when funding is limited and the business design provides a framework within which decisions can be more easily made with science than with black magic.

How to Create a Good Design

To illustrate what a good business design consists of, this report will examine how to create a good business design. To understand what the concept of business design is, you need to understand the simple business lifecycle.

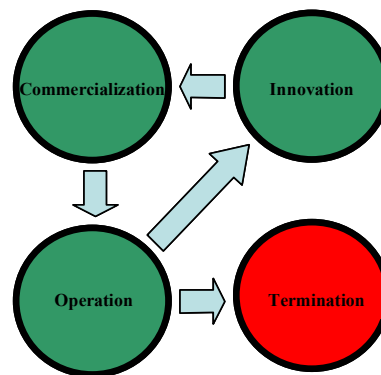


Figure 1. Business Lifecycle

Business ultimately progresses through 4 stages.

Innovation starts with an idea or concept. As the result of an evaluation process the concept becomes the basis for a new or modified product or service, business line or business.

Commercialization is the process of taking the new concept to market. In some cases the market is internal customers, but the same principles and strategies apply. Commercialization brings the idea to life.

Operation involves the ongoing management activities required to sustain the initiative. This is the stage that is most focused on in business schools.

Companies need to look for ways to innovate with new products, processes, markets, customers, distribution channels, business models, pricing, technology, management practices, alliances, acquisitions, and more.

The alternative to continuous innovation is business termination. **Termination** occurs when the business design cannot sustain the Operation.

A good business design primarily supports the Commercialization stage and the transition to the Operation stage.

Innovation combined with business goals are one set of triggers for embarking on the business design process. The other is the need for a new business design because financial conditions dictate it for survival.

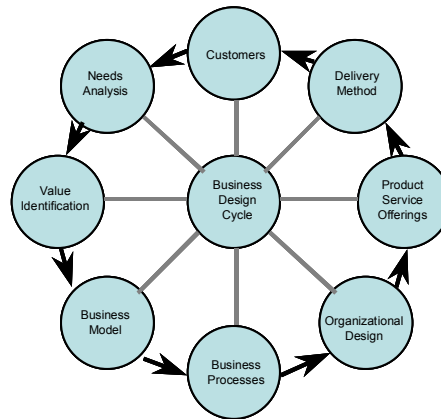


Figure 2. Business Design Cycle

The Business Design Process needs to be managed and documented centrally even though various units within a large organization would be required to provide input and insight into the variety of process steps. The process starts and ends with the customer. Since the business' customers are the ones ultimately creating a revenue stream for the business, analysis of the customer's situation needs to take precedence. A good idea for a product or service or innovation is only good if it fits your customer or user and those same people can learn about it and decide for themselves that there is indeed a fit.

A significant part of the customer and opportunity identification step is "visioning". The term visioning has been used frequently lately in business publications and all CEO's want to be good at visioning. Creating a good vision for an organization involves a few less mystical steps. The first is trend analysis. For your business, industry, or product line, being able to review historical analysis and project trends into the future, allowing for sudden events and disasters to occur, is a critical skill. Secondly, assumption analysis helps determine probabilities of certain positive or negative events happening based on how the assumptions were formulated. Ultimately, projecting the different future possibilities onto your customers and other stakeholders to determine potential outcomes and results, allows you to run scenarios that narrow the scope of the visioning exercise. Projecting these possibilities also creates a set of data that can be used for decision making related to the new visions.

Needs analysis is the next step and involves business analysis and problem solving to create a solution and fit for the customers. We often require customer or market research and data collection at this step to determine the psychological fit with the customers in order to validate our own perceived fit as a result of the business analysis.

The value identification step in the business design process takes the concept of the “fit” of the solution and determines what financial considerations may need to be part of the final package or offering. It does not help the customer if they cannot afford to buy the product that meets their need or if the company cannot afford to produce the product without stopping production of another profitable product line.

The marriage of the business solution with the financial analysis leads to the subsequent creation of the business models. The term business model is used a lot with different definitions. Our firm includes the following components in the creation of a set of business models:

- Revenue/Expense Modeling
- Business Line Definition
- Resource Management
- Asset Management
- Product Laboratories
- Risk Analysis/Risk Management

The outcome of the business modeling step is a set of work products for each of the above components that determine how you can create the profitable product offering with appropriate risks. The risk analysis tasks relate back to the trend and assumption analysis performed at the customer analysis step. Effective risk management improves the probabilities of positive outcomes and mitigates the downside damage that could be caused through out of scope or third party factors. The collective analysis of these work products provide the basis of a decision on selecting the business model that the business line can be based around.

Business process design for a new product line, business line or entire organization needs to be based on the chosen business model. Too often we have witnessed companies create good business models but subsequently spend a lot of resources on time and motion studies to try to improve the efficiency of their processes. If a process is not directly supporting the business model, it needs to be examined for need. Information systems support also needs to be aligned with the required business processes.

The design of the organization can now proceed. The organization needs to be designed around the business processes. If an organization structure is created for political reasons, pressure from special interest groups in a company, or any reason other than to support the business processes, the results against the business model will suffer. All jobs and the design of the management team needs to support the required business processes. Process ownership becomes part of the organizational design as those processes are what will get you the results expected from the business model.

You may have expected to read about this earlier, but only now are you ready to package up your product and service offerings. How the products are produced, prepared, communicated, and marketed is determined at this step. What is the definition of the products and product lines to our customers and internal employees? What is the vision for these products in the future? How will we manage the product development lifecycle to reach that vision and support the business model?

The next step involves getting the completed product or service to the customers for use. At this step, you have seen the pattern of one step building and needing to support the results from the previous step. This one is no exception. Delivering any type of product or service to a customer means manufacturing, distribution and logistics, physical and virtual product packaging, sales and service, and creating a set of important customer feedback loops directly in the delivery methods. Those feedback loops are complemented by monitoring systems, reporting and controls. Without built in feedback, the only other indicators of the success of your business model will be your financial statements. It may be too late at that stage to do something about the problems or make dynamic adjustments.

Evaluating Your Current Business Design

This may sound like a monumental task while you are running a going concern but the way to analyse and evaluate the existing business design is to follow the process of creating a new design and perform a gap analysis along the way.

To help with the evaluation try documenting answers to this short checklist of questions:

- Do you have a documented business design?
- How up to date and detailed is the financial analysis supporting the product or business line?
- How many people in your organization do you have to touch to gain a full understanding of the business model?
- Have you performed a risk analysis recently on your current business model?
- How many processes do not appear to be supporting the business model?
- Has the organization been created to support the required business processes? Or what other rationale was used?
- Who controls the product vision and packaging? How are those people linked by process and organization to the creation or maintenance of the business model?
- Have feedback loops been built into your delivery methods to get products and services to your customers?
- What were the last few triggers that caused your organization to change its business model? Major processes? Organizational structure?

Moving Forward

This business design process is a cycle that starts and ends with the customer. Your task is never truly completed. Different environmental conditions will dictate changes, new leadership will ask for changes, and customers will always provide feedback if you encourage it and find creative ways to capture and use it. It is important to build the business design process into your core strategic processes, so that people are always looking for the correct business model and support structure for the needs of your customers today... and tomorrow.