Chapter 1

Value Activities and the Business Model: The Central Tenets of the Organisation

ABSTRACT

The business model and the value activities are able to play a significant role in the development of the strategic plan and risk assessment for the organisation. The importance of these concepts and the separate role each needs to play is discussed. The good business model is an important tool for managers to analyse strategic choices and select the strategies they feel appropriate to develop the organisation for future advantage and to set the business into a more effective direction. However, the definitions for a business model cover a range of complexity: from a simple definition covering the customer and product, to a complex definition covering most of the business organisation. The value proposition is examined as a systematic way of examining the activities a firm performs and how they interact. The various value models: from value chain to value net, are reviewed and replaced with the term value architecture to give a broader view of the value concept. An architecture is proposed for defining the structure of the value activities and their inter-relationships which can provide an underpinning of information for the business model. This would remove many complexities from the model and make the model easier to review, validate and implement.
INTRODUCTION

An organisation can be defined firstly by ‘how’ it does business, that is the relationship between the nature of the product and the targeted customer market segment, and secondly by ‘what’ the organisation does in terms of the processes and resources used to create the product, and to develop the customer market.

How the organisation does business can be defined by the business model, and what the organisation does in terms of processes and resources which can be described by the business architecture. Unfortunately, there are many definitions for the business model and many different descriptions for a business architecture.

This chapter is about reviewing the business model definitions from a simple definition to the very complex and examine the difficulties posed by the variety of alternative definitions. It is proposed to use a simple model that is easy to understand and update as required. The chapter will also discuss the use of the value chain when defining a business architecture and suggests that by delineating a specific role for the business architecture and the business model, each becomes simpler to use. Value chain analysis will be reviewed for its importance in describing the business organisation, and the broader term of value analysis will be discussed more fully in the following analysis chapter.

The business model and business architecture both play a role in the development of the strategic plan, and in developing the risk assessment for the organisation and for the strategic plan. The importance of these concepts to the running of the organisation and the separate role each needs to play is discussed. The idea is to bring everything together into a cohesive planning function such that the organisation can be seen holistically, creating a much more sustainable planning environment.

The various concepts and terms associated with the strategic planning environment often have conflicting descriptions in the literature, and the descriptions can overlap to varying degrees. In order to clarify the planning environment, it is necessary to review the intersection of the various terms and concepts that are described in different papers. There is a need for clarification and separation of function for each of the different concepts, such that each can play a useful functional role in assisting in the development of strategies for future improvement of the organisation.
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