

Viewpoint: The Important of Process

Many companies do not appreciate the importance of process. Processes are the arteries of companies. When they are clogged, or do not operate optimally, the company is not competitive and eventually it fails!

A company is nothing more than an aggregation of processes that accept inputs and produce outputs. If enough of the terminal output from a company's processes is purchased by its clients, the company survives. If not, it fails.

Any work that needs to be done repeatedly must be the product of a process. The goal of any process is to produce a desired output quickly, inexpensively, and with as little uncertainty in outcome as possible. Variance in the quality of output should be quite minimal.

Consider the following:

- Dell set the standard for supply chains and established a significant competitive advantage when it was able to take an order, build and ship the order, invoice and collect payment for the order, all before it was invoiced for the materials used in the fulfillment of the order. What impact on Dell's working capital did this create? How did this affect Dell's competitiveness?
- Uber is the largest taxi company in the world, but it owns no cars. Airbnb is the largest hospitality company in the world, but it owns no properties. Each company finds its competitive advantage in the matching of excess capacity with need, and then facilitating an equal of exchange of value. Both companies have grown exponentially in revenue while never talking to the consumers of their offerings.
- When Tony Hsieh started Zappos, he did so because he wanted to provide superlative customer service; a fantastic customer experience. Selling shoes was merely a means to an end. Zappos entire business model is premised on providing

the best service and the best experience. Product design and manufacturing are for someone else. Zappos success has allowed them to expand beyond shoes into handbags, clothing, and other items, while scaling to \$2B in revenue. Who captures the premium paid by the client in this situation?

- Zappos or the manufacturer?

Often two cardinal rules in business are overlooked: everything must become cheaper over time; and, everything must happen more quickly. In this new world the small and fast eat the big and slow. Speed limits don't exist anymore. **Cost and velocity are two vexing issues for every CEO.** A company that cannot reduce costs and increase its velocity of execution will ultimately fail, no matter how good its strategy and offerings are. Operational innovation and excellence are forsaken only at great risk.

A company's costs and velocity of execution are necessarily constrained by their processes. If a company wants lower cost, typically it needs to remove people from its processes. This is true because most companies have already optimized all other factors that influence cost. If a company wants greater velocity of execution, it needs to automate its processes. World class companies are doing both.

Uber and Airbnb are obvious examples of companies that disrupted entire industries by offering a mundane, undifferentiated product. These companies owe their success to the extreme efficiency and cost effectiveness of their operating model, not to their product. Imagine if they had a differentiated product and extreme operational efficiency. What would that client experience be like?

Companies that are seizing the advantage are becoming increasingly modular organizations. Processes and functions that are a core and integral source of competitive advantage are segregated, with the remainder subject to extreme standardization and, in many cases, outsourced.

Technology has reduced the cost of coordination so that **enterprises are no longer defined by legal boundaries.** They are virtual; they are defined by how they assemble the processes they need to meet the needs of their clients. Cost and efficiency command this. Remember, Uber owns no cars; Airbnb owns no hotels.

Ultimately, it will be the case that no one company will completely own the competitive advantage that makes one product or offering more compelling than another. Instead, one company will select and orchestrate a collection of processes that combine to deliver monetizable value to an end consumer. Zappos certainly approaches this ideal.

When companies try to do more than what is required to deliver the value their client is willing to pay for, their operating models become bloated, rigid, and inflexible; they are characterized by their lack of resilience, being unable to recover from even a modest disruption. **Less is now more.** Lean companies are agile and responsive to change.

Today companies that aspire to be (or remain) world class are disaggregating their business into its constituent processes. Non-core processes are being outsourced to providers that have the expertise to standardize, automate, and operate them at scale cost effectively. The core processes that remain become a subject of keen focus for the company since they must evolve to operate at greater velocity and at less cost if the company is to succeed. In either instance the ability to leverage technology for cost reduction and velocity of execution is an imperative. Companies that most fully exploit technology will be the winners. Those that fail to adequately exploit technology will be marked for death.

The role of the company's most senior executives is to clearly understand and precisely define what the competitive advantage of the company is. "Exactly what is the value we offer to our clients?" With this understanding as a guide, hard-nosed decisions about the processes that contribute directly to the competitive advantage must be made. Those processes that are deemed not to contribute directly should be obvious candidates for outsourcing. The remainder that are deemed to contribute must be reevaluated in the context of current technology. Remember, Zappos has built a \$2B company solely by providing fabulous customer service and a great experience. For Zappos, nothing else is core - it's all outsourced.

Dell set the standard for supply chain optimization; others fought to catch up while Dell profited. The only threat to the dominance of Uber and, perhaps, Airbnb is government regulation that takes away their advantage. Zappos does not worry about products or supply chains; they simply provide great service.

More disruptive companies are certain to emerge (start-ups, or old dogs with new tricks) and expose the fragility many businesses suffer from because of expensive, lethargic, inefficient, and tightly coupled processes. **Automated processes that are modular and operate at high velocity and low marginal cost might be the only preventative measure CEOs can take to avoid being disrupted.**

To learn more about how your company can prepare for competition in this new era of digital transformation, please contact us - info@cognisive.com.