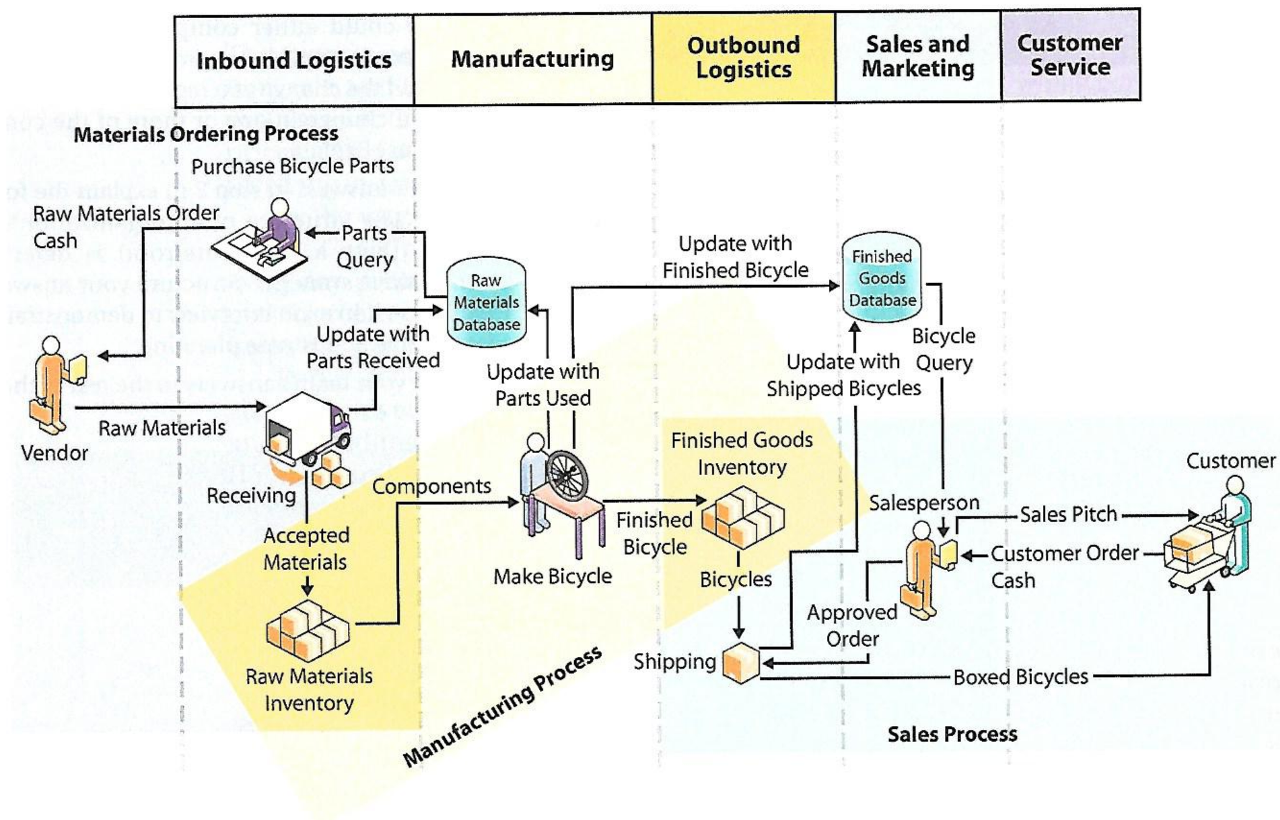
Q5 How Do Business Processes Generate Value?

A **business process** is a network of activities that generate value by transforming inputs into outputs. The **cost** of the business process is the cost of the inputs plus the cost of the activities. The margin of the business process is the value of the outputs minus the cost.

A business process is a network of activities. Each **activity** is a business function that receives inputs and produces outputs. An activity can be performed by a human, by a computer system, or by both. The inputs and outputs can be physical, like bicycle parts, or they can be data, such as a Purchase Order. A **repository** is a collection of something; a database is a repository of data and a raw material repository is an inventory of raw materials. We will refine and extend these definitions in Chapter 7 and again in Chapter 10, but these basic terms will get us started.

Consider the three business processes for a bicycle manufacturer shown in Figure 3-8. The materials ordering process transforms cash[3] into a raw materials inventory. The manufacturing process transforms raw materials into finished goods. The sales process transforms finished goods into cash. Notice that the business processes span the value chain activities. The sales process involves sales and marketing as well as outbound logistics activities, as you would expect. Note, too, that while none of these three processes involve a customer-service activity, customer service plays a role in other business processes.

Figure 3-8
Three Examples of Business Processes



3 For simplicity, the flow of cash is abbreviated in this diagram. Business processes for authorizing, controlling, making payments, and receiving revenue are, of course, vital.