GENERAL INTRODUCTION TO

BUSINESS CAPABILITY MODELING

FREE BONUS FOR PURCHASING A CAPABILITY MODEL FROM CIOPAGES.COM

A NEW PARADIGM FOR BUSINESS MODELING AND DESIGN

The current techniques of capturing what a business wants are failing and hence capabilities represent an opportunity to capture the essence of what business wants and enable optimal technology solutions.

CURRENT MODELING APPROACHES

Organizational model

- **Recognizes** that people make decisions and empowers then within their realm
- **Decisions** are made within BUs or within organizational substructures
- **Capabilities** are often replicated to give each organizational entity control over how they develop
- **Ambiguity** of roles often leads to personal conflicts and turf wars

Process model

- Helpful in explaining **how a business does things**
- Typically cuts across management layers, making process-based business management efforts difficult and slow from a governance standpoint
- **Processes change too quickly;** often once a complicated process is documented, it has already become obsolete

Project approach

- Projects are often effective at **delivering focused change** in an organization
- **Big picture is often missing,** therefore, decisions are made at the local level, instead of what might be ideal for the company and its strategy
- Based on project governance, there are often **organizational limitations** of what they can do, inheriting the organizational model's shortcomings

Primary shortcomings

- The current techniques of capturing what a business wants are failing and hence capability ***Redundancy*** of capabilities, which leads to complexity and rework
- ***Ambiguity*** which leads to turf wars hurting focus
- ***Lack of big picture*** view, especially when using the project approach
- ***Different languages*** / references across businesses and support services (e.g., IT)
- ***Losing Forest for the trees***

How Capability Modeling can help bridge the gap?

- ***Focus on Capability Evolution,*** rather than project execution
- ***Resolve Ambiguity,*** by anchoring requirements to capabilities
- ***A decomposed capability model*** offers a comprehensive and holistic picture
- ***Capabilities offer*** a true bridge between business and technology by creating a common language and structure
- ***Capabilities offer*** structure and coherence so as not to miss the forest for the trees

The emergent discipline of capability modeling and **business architecture can help most organizations**

INTRODUCTION TO BUSINESS CAPABILITY MODELING

Business Capabilities focus on describing "What" a business does, rather than the how, who, where, when. (All the other components are important for full contextual picture of the business need, but Capabilities are the foundational building blocks of business architecture.)

Level 1: Value Chain

- Product development
- Manufacturing
- Marketing
- Sales
- Customer Service
- Finance & Accounting

Level 2: Sales

- Sales planning & forecasting
- Territory mgmt.
- Lead & opportunity mgmt.
- Client relationship mgmt. (CRM)
- Order mgmt.
- Pricing

Level 3: CRM

- Client segmentation
- Client contact detail mgmt.
- Interaction mgmt. & history
- Customer analytics
- Activity planning & meetings mgmt.

Level 4: Client Segmentation

- Demographic segmentation
- Psychographic segmentation
- Opportunity-based segmentation

Level 5: Opportunity-based

- Profitability analyses
- Opportunity mapping
- Cross-sell and up-sell planning
- Life-time revenue assessment

Capability-based view is:

A) Logical and intuitive,
B) Stable, and
C) Non-redundant yet comprehensive

Provides a better way to:

- Organize how we think about a business
- Instill & track business strategy & performance
- Communicate across disciplines (e.g., business & IT)
- Gather requirements & develop evolution roadmaps

Definitions

"Capabilities are the fundamental elements that provide an organization's capacity to achieve a desired outcome. They can be thought of as describing the organization's potential. Taken together they form a model representing all the functional abilities a business needs to execute its business model and fulfill its mission."

– Jeff Scott

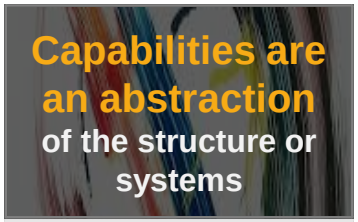
"Business capability is the expression or the articulation of the capacity, materials and expertise an organization needs in order to perform core functions. "

– Margaret Rouse

ATTRIBUTES OF BUSINESS CAPABILITIES

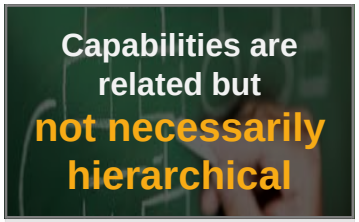
- Capabilities are solid, stable and at time ever changing
- **Example:** The badging process has changed, but not the capability called “Identity and Access Management”

- Capabilities at their core should be unique, individualistic, distinct, and mutually exclusive
- **Example:** “Retention/ Archival Management” is a single capability even though the specific attributes, situations and policies may change



- Capabilities are not a direct representation of an org structure or a functional decomposition or systems (product model) even though capabilities influence of all these.
- **Example:** A capability called “Human Capital Development” is not equivalent to a HR department. Or “ERP Systems like SAP” is not a capability, but a system that implements core organizational processes and orchestrates key capabilities along the way

- Individual capabilities may or may not have a purpose. But when harnessed for a process, flow or function, they have a purpose – individually or collectively and accomplish something.
- **Example:** A capability called “Communication” may not have a purpose or impact, but with a process like “Advertising Campaign”, the capability is harnessed



- Capabilities are organized in groups and presented in lower levels of granularity. But they are not necessarily hierarchical but just a logical grouping
- **Example:** Performance Measurement may be grouped with Investment Management, but neither the parent nor the child can capture all the needs met by the capability

CRAFTING A BUSINESS CAPABILITY MODEL

Typically there are two ways to create a Business Capability Model

White Board Elicitation

A cross functional team from business and technology disciplines may be assembled to brainstorm and create a model from scratch. While in theory this looks fine, in reality the exercise is fraught with wasted effort over extended duration

Straw Model Based Refinement

A faster and effective approach to building a business capability map is to create a straw model. This can be done by one or two individuals – with the understanding of business architecture and capability modeling, and innate knowledge of business. The straw model can be used with a broader group for iterative refinement

Keep in Mind…

- **Don't do it for the business,** do it with the business
- **Have some rigor** to make sure the model has structural integrity and content coherence
- **Follow a value chain** and a life cycle approach to flow thru the capabilities
- **Decompose** to lower levels of granularity and keep levels similar
- **Do not think processes,** functions, systems and business units. Keep thinking "What" a dozen times to focus on capturing the essence of what the business does, which is the essence of a capability.
- **Use nouns, as opposed to verbs**, to denote capabilities. This is a best practice and not set in stone. At lower levels, things will morph into looking like processes, activities, tasks and that is OK

SELECT USE CASES: ACHIEVE SPECIFICITY AND PRECISION BY ANALYZING THE IMPACT OF KEY INITIATIVES AT A CAPABILITY LEVEL

MARKETING & PRE-PURSUIT SALES		PURSUIT STRATEGY	PROPOSAL DEVELOPMENT	NEGOTIATIONS & CONTRACTING	CLIENT ONBOARDING	ACCOUNT MANAGEMENT	GROWTH & RENEWAL
Market segmentation & targeting	Goal setting & incentive alignment	Deal tiering	Solution design A	Negotiations planning & execution	Operational onboarding	Delivery management	Profitability tracking and assessment B C
Market competitive analysis & positioning	Lead generation & qualification	Client & competitive analysis	Pricing strategy	Commercial & operational due diligence	Technological onboarding	Contract management	Growth opportunity identification and execution
Product differentiation	Opportunity segmentation & prioritization	Pursuit team and resource mobilization	Commercial and contractual terms	Deal review and approval	Contractual onboarding	Financial management	Renewal strategy
Pricing & profitability management A B	Pipeline management	Solution bundling strategy	Proposal review and approval	Contract processing	Financial onboarding	Relationship management	
B2B channel & promotional strategy	Sales forecasting & reporting	Win themes development		Win/loss analysis		Legal and compliance management	

Impact of Key initiatives on Capabilities:

Preliminary

- A Ability to provide **optimal pricing** for each client
- B Enable **total cost and profitability** transparency at the client & product level
- C Establish a **systematic profitability assessment** and improvement mechanism

SELECT USE CASES: CAPABILITY-BASED REQUIREMENTS PRIORITIZATION

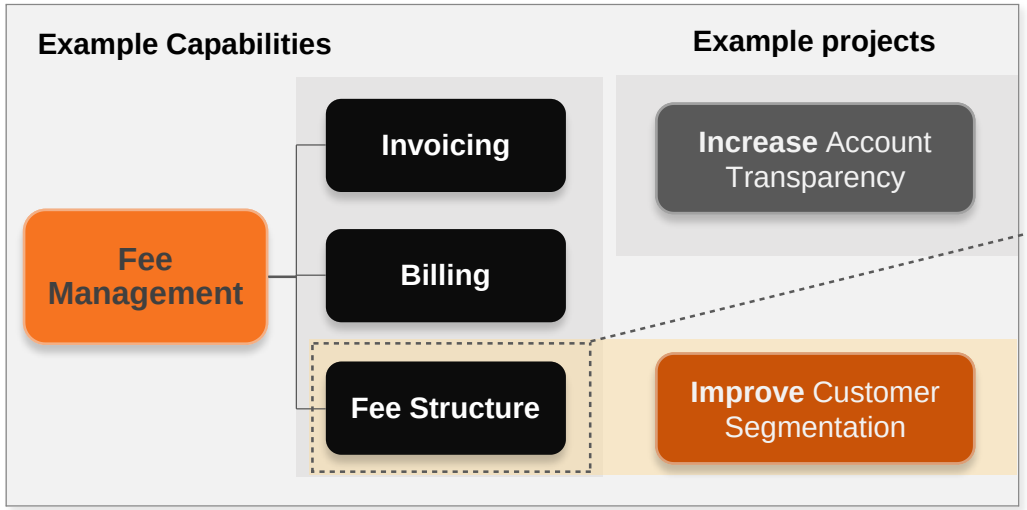
Requirements should be anchored to capabilities and documented as a way to extend/evolve the capability. This is the classic **"Fit-for-Purpose"** model of documenting short-comings at an execution level.

Business Need: Increase per account profitability

Associated Capabilities Complexity Value	Specific Impact and Requirement	Effort		
Customer Transaction History	Need to obtain 3-years of customer transaction history to evaluate profitability patterns	H	L	H
Discounts Management	Need to assign and track specific incentives provided per account and impact on profitability	M	M	M
Returns Management	Account for merchandize returns to understand net profitability after restocking costs	L	L	H
Sales Forecasting	Evaluate future profitability of accounts based on sales projections	M	H	M
Payment History	Analyze payment history for delayed payments and its impact of cost of float	H	H	H

SELECT USE CASES: MANAGE OVERLAPS, CONFLICTS, REDUNDANCY AND REPLICATION ISSUES

Multiple projects can impact the same capability



WITHOUT CAPABILITY MAPPING

- **Overlaps are difficult to identify & manage**
  - × **Conflicting requirements** leads to rework & unsustainable "patches"
  - × **Synergies** are missed leading to unnecessary complexity & redundancy
- **Lack of capability owners**
  - × Even small **"compromises"** require senior management input

Requirements for Fee Structure can be easily optimized at the capability level

Increase
Account Transparency Requirements

Improve
Customer Segmentation Requirements

- New customer **segmentation-based** fee structure
- **Customer visibility** and method of communication specifics for each of the new segments

✓ Benefits

- **Conflicts & synergies** are easy to identify and manage
- **Creates a common language** between Business and IT
- **Enables effective rationalization** of requirements to develop an optimal roadmap for each capability

SELECTED USE CASES: IMPROVE THE IT LANDSCAPE

An agglomeration of underlying capabilities can form a business service, which is a corollary to an IT Service. Well defined capabilities and business services can influence the modularity and granularity of IT services, thus reducing Service proliferation.

Typical Approach: General requirements disseminated piecemeal and without big picture

Business Requirement:	
User A wants to drink **Tea** in the morning 	User C wants to drink **sparkling water** 
User B wants to drink **coffee** in the afternoon 	User D wants to **drink a pint for lunch** 

IT Service 1
Get Tea

IT Service 2
Get Coffee

IT Service 2
Get Water

IT Service 2
Get Beer

Challenges

- **"Fine grained"** service definition
- **Repetition** and replication of functionality
- **Service proliferation** leading to IT costs
- Infrastructure **overload** because of too many round trips

Capabilities-based Approach: Hierarchical granularity helps define appropriate IT coarseness

Beverage Capability Model: Beverages

1.Alcoholic
a) Beer
b) Wine
c) Whisky
d) Vodka

2. Non-Alcoholic
a) Soda
   i. Regular cola
   ii. Diet cola
a) Water
   i. Sparkling
   ii. Regular
   iii. Bottled

IT Service 1
Get Beverage

Benefits

- **Coarse grained service** definition
- **Consolidation** of associated functionality
- **Service rationalization** and optimization
- **Lean and agile services** infrastructure
- **Better user experience**

OTHER VALUABLE USE CASES TO LEVERAGE CAPABILITIES

To make business capabilities and business architecture practical and pragmatic, and their usage viable and valuable, we must take them beyond the ivory tower and transform the “wall art” to an execution optimization toolset

Assessment of capabilities, anchoring requirements to capabilities and a roadmap helps create a compelling business case for investment into a capability or group of capabilities

Capability based Business Case

Capability-based roadmaps tend to focus investment committees on funding the capability evolution, not short-term project execution

Capability-based Roadmaps

A product model should be influenced by and conform to a capability model for effectiveness. (Circumstances may dictate which was done first.)

Capability influenced Product Model

Conducting footprint analysis of which capabilities are supported by what applications/systems allows an opportunity to rationally rationalize the app portfolio.

Capability-based Application Port-folio rationalization

Understanding business strategy and which capabilities are important to achieving the strategic goals is a great way to align spend to priorities

Align Spend to Priorities

Vendors are known for marketing speak. A **detailed capability model** and needs can be a compelling way to elicit vendor responses and score them.

Capability-based Vendor Evaluation

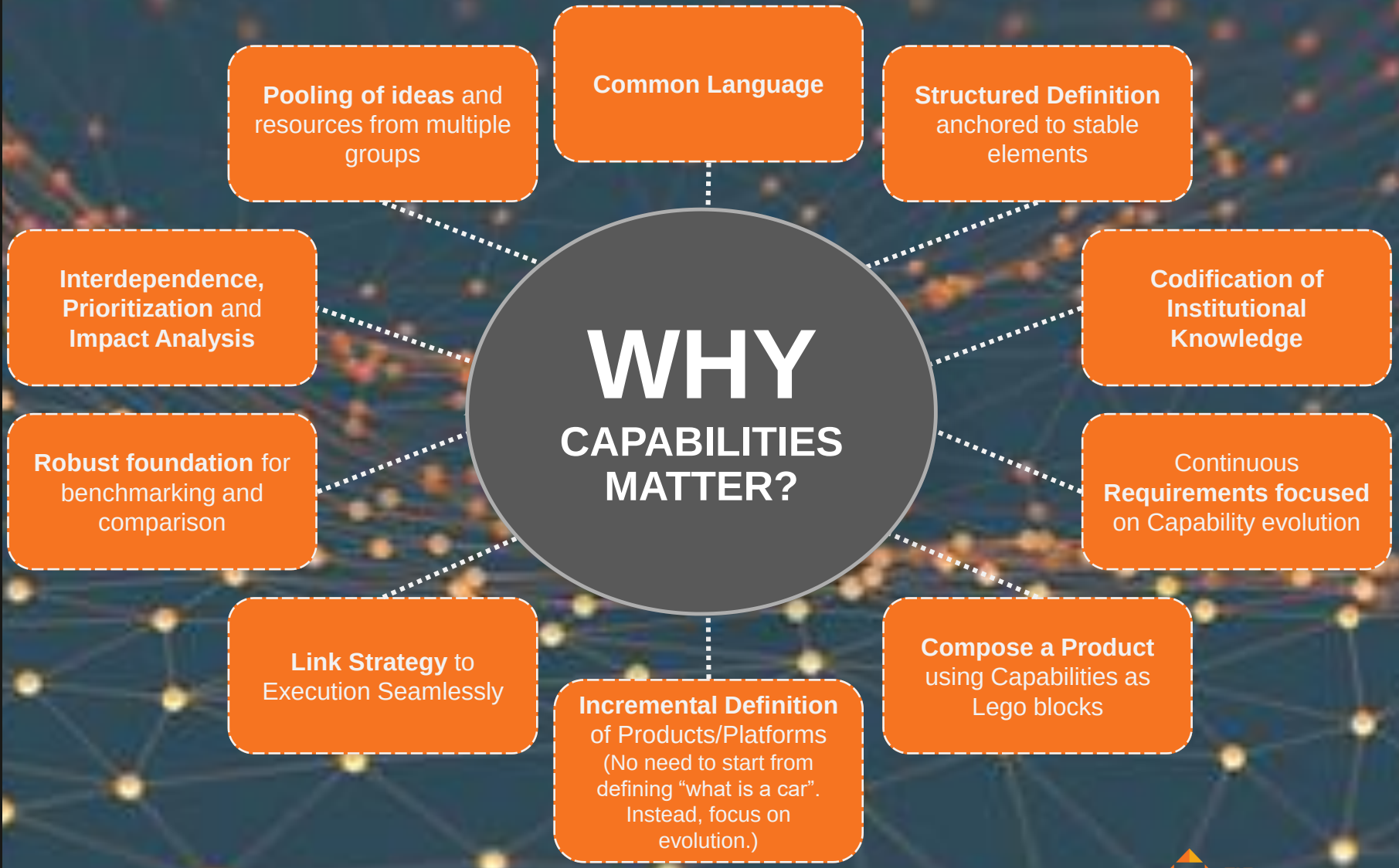
Generic competitor profiles and verbose statement do not bring the true nature of competitors differences to the fore. **Capability-based evaluation** helps do so.

Capability-based Competitive analysis

Organizing delivery teams for cluster of capabilities will help build domain and technical knowledge and deliver effective and efficient solutions

Capability-based Delivery Teams

WHY SHOULD BUSINESS/PRODUCT TEAMS CARE ABOUT CAPABILITIES?



CAPABILITY MODELING BENEFITS TO STAKEHOLDERS

A few examples on how capability architecture can help alleviate the aforementioned challenges

1. 

CEO – Operationalize company strategy using capabilities

2. 

CFO – Use capability analysis to drive capital allocation decisions and portfolio rationalization

3. 

CIO – Establish the right level of IT granularity and modularity to streamline IT landscape and reduce operational complexity

4. 

CMO – Capabilities are “Lego blocks” that are used to define platforms, hence reducing replication and promoting reuse

5. 

Program Manager – A capability view helps identify & manage overlaps and define a capability evolution roadmap

6. 

Chief of M&A – Guide post-merger integration strategy, or reduce complexity across highly redundant organizations

7. 

IT Program Manager – Establish a common language, for example, across IT and the business

8. 

Vendor Sourcing – Help inform and develop strategic vendor selection & management

APPENDIX

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BUSINESS ARCHITECTURE OFFERINGS

Business Architecture Rapid Start

A 4-week program aimed at instilling the discipline of business architecture and capability modeling.

Enterprise Capability Model

Using a straw model approach, help develop an enterprise capability model to 3-levels

Business Architecture Business Case

Assess the current state of business and IT and build a business case for how and why business architecture and capability modeling makes sense.

Capability-based Digital Transformation

Digital is the new “Plastics”. How does one operationalize and realize digital? A capability-centric digital transformation plan and roadmap will help.

Capability-Modeling Pilot Project

Jump start the discipline of business capability mapping by implementing a pilot project and helping build internal competencies to drive broad-based adoption.

Capability-based Merger Analysis

Leverage capabilities pre-merger to identify opportunities and use them for post-merger integration.

Capability-based Vendor Evaluation

Instead of vaguely written and constantly changing requirements, capability-based vendor evaluation is efficient and effective.

Need More?

Please contact CIOPages.com for more information about our standard offerings and a custom proposal.

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FUNCTIONAL AREA BUSINESS CAPABILITY MODELS

The following are the horizontal, functional area, business capability models.

We also have industry specific models. Please contact us for additional details and customization options.

Accounting and Finance Business Capability Model

CRM Business Capability Model

Marketing Management Business Capability Model

Human Resources Business Capability Model

Supply Chain Management Business Capability Model

Customer Management Business Capability Model

Business Intelligence and Data Analytics Business Capability Model

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