Definitive Guide to Business Capabilities

STRATEGIC MANAGEMENT	CUSTOMER RELATIONSHIPS	PRODUCT & SERVICE DEVELOPMENT	PRODUCTION	PROCUREMENT & LOGISTICS

STRATEGIC MANAGEMENT

Strategy Development
- Develop Vision/Mission
- Define Strategy
- Track Strategy
- Adapt Strategy
- Manage Strategy

Organization Development
- Coordinate Process Strategy
- Plan Long Term
- Develop Organization Goals
- Strategize Business Unit

Mergers & Acquisitions
- Manage M&A Strategy
- Manage M&A
- Track Acquisitions
- Manage M&A Integration

Manage Core Business
- Evaluate Existing Products
- Manage Bus. Performance & Ops
- Coordinate Projects
- Manage Projects

Innovation & Technology Management
- Scout Trends
- Manage External Innovation
- Manage Internal Innovation
- Manage Innovation Process
- Track Innovation

Externals Management
- Evaluate & Select
- Maintain Contracts
- Monitor Performance
- Manage Payments
- Terminate Contracts

CUSTOMER RELATIONSHIPS

Customer Management
- Identify Customer
- Manage Customer
- Manage Customer Hierarchy
- Manage Community
- Manage Org. Context

Contact Management
- Outbound Contact
- Inbound Contact
- Classify Demand
- Route Contact
- Contact Interaction
- Manage Interaction

Customer Scoring
- Define Customer Risks
- Manage Customer Risks
- Check Credit-Worthiness

Order Management
- Validate Order
- Track Order
- Bundle Order
- Steer Order
- Cancel Order

PRODUCT & SERVICE DEVELOPMENT

Engineering
- Manage Requirements
- Design Products
- Conceptualization
- Construction

Quality Management
- Test Initial Quality
- Track Quality
- Manage Debugging
- Manage Product Document

R&D
- Manage Product Portfolio
- Manage Innovation
- Manage Patent
- Manage R&D Process

Requirements Definition
- Evaluate Existing Products
- Review Demand
- Manage Materials
- Require Distribution

Method Development
- Define Method
- Validate Method
- Refine Method
- Execute Method

PRODUCTION

Production Design & Planning
- Manage Production Requirements
- Define Production Process
- Define Production Site
- Plan Material Requirements
- Manage Waste Disposal

Production Steering
- Retrieve Product Information
- Monitor Production Process
- Localize Product
- Bill of Material Management
- Deliver Product

Production Order Management
- Plan Supply Quantity
- Plan Production Orders
- Manage Order Validiy
- Plan Production Program
- Pre-production Planning

Machine Management
- Build Machine
- Operate Machine
- Calibrate Machine
- Manage Machine Information
- Optimize Machine

PROCUREMENT & LOGISTICS

Purchasing
- Manage Purchase Requirements
- Manage Purchase Order
- Manage Purchase Catalogue
- Tendering
- Manage Purchase Requisition
- Approve & Transmit Order
- Manage Purchase Procedure
- Manage Category

Sourcing
- Define Sourcing Strategy
- Define Sourcing Requirements
- Manage Sourcing Tender Process
- Decide On Sourcing

Logistics Management
- Manage Returns
- Manage Logistic Order
- Manage Transportation
- Manage Demand Forecast

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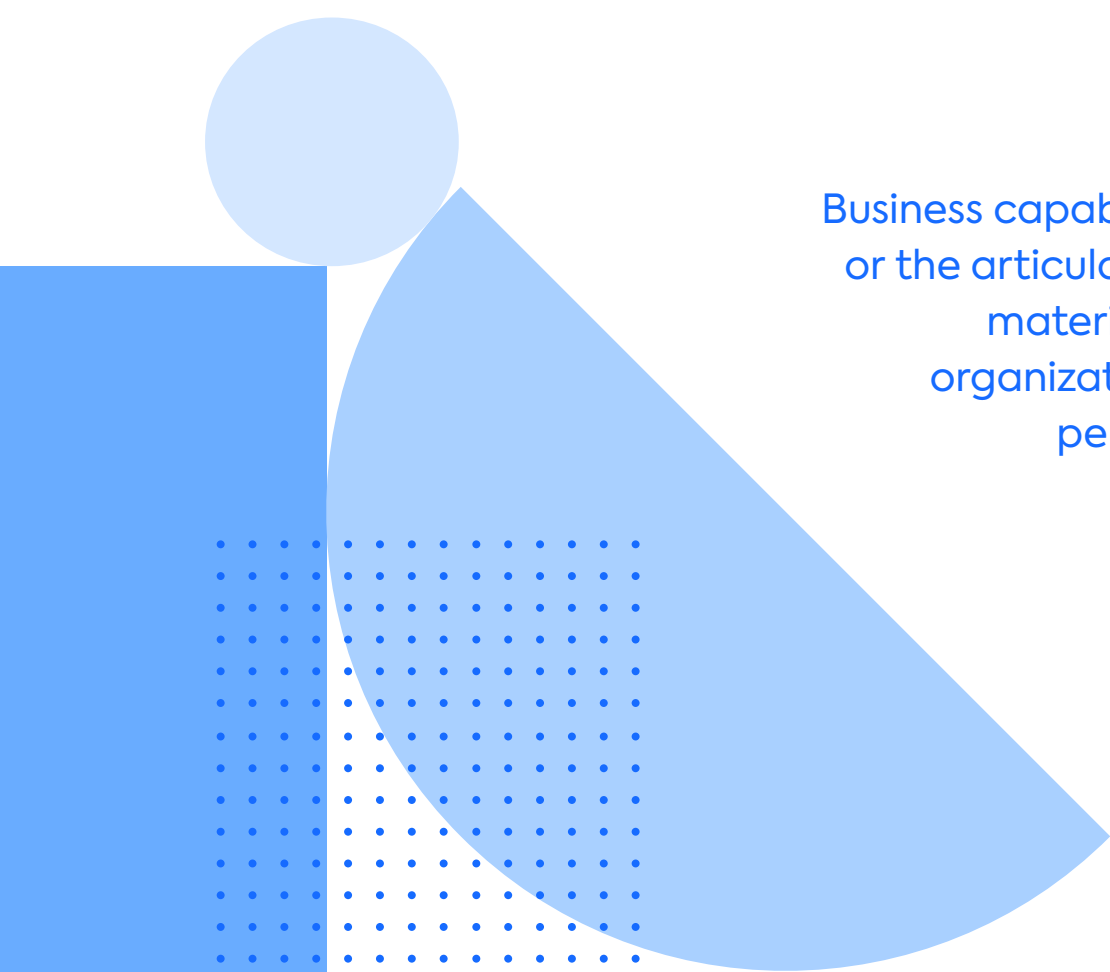# Definitive Guide to Business Capabilities

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Introduction

Business capability is the expression or the articulation of the capacity, materials, and expertise an organization needs in order to perform core functions. Enterprise architects use business capabilities to illustrate the overarching needs of the business and the technology required to meet those needs.

In today's digital age, the role of information technology (IT) has shifted from supporting business processes to executing business strategy. IT makes it possible for customers to receive their online orders the next day, enables them to watch and read their news on the go, and guarantees the smooth processing of payment for such services. As a result, the challenge of bridging the gap between strategy and execution within IT has become more complex than ever.

Organizations who speak in different idioms across different functions often cause this gap to widen. They speak of missions, strategies, goals, processes, and projects. The CEO speaks of "making mobile-first a priority," marketing could be focused on "increasing share of wallet amongst millennials," and IT is in talks of "load-balancing the Linux server cluster."

Business capabilities have the potential to serve as a universal language at enterprise scale. If used properly, they can help save money, decrease risk, and accelerate growth. This white paper will help you understand what business capabilities are and how to implement them at your organization for optimal results.

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

Business Capability Modeling

Business capabilities reveal how a business currently operates, and what it needs to do to meet present and future challenges. They define "what" a business does, rather than "how" it does it. For example, most companies have goals around attracting, engaging, and retaining a competitive workforce. Employee Management is one business capability necessary to achieve this goal. It tells us what we need to do, but leaves it open as to how we do it.

More abstractly, Gartner, Inc. defines business capability modeling as, "a technique for the representation of an organization's business anchor model, independent of the organization's structure, processes, people, or domains." Business capabilities help to create a simplified view of an organization's disparate, fast-moving parts. We can imagine them as the sum of people, processes, and technology needed to achieve a certain goal. If we revert back to the example of, Employee Management, the people (talent acquisition, HR), the process (attract, screen, interview, hire, onboard, retain), and the technology (career site, applicant tracking system, online assessment center,

benefits portal, etc.) coalesce to form one capability of the organization.

Well-defined business capabilities are fairly stable over time. While the way we recruit has changed quite a bit over the last 10 years, the target outcomes have remained the same. We should emphasize the word fairly. In the age of digital transformation, it is not uncommon for entire business models to change. Amazon started as an online book retailer. Today it is the world's largest digital marketplace, hosts more than 15,000 streaming movies on Amazon Prime Video, and is a leading provider of cloud computing. Still, business capabilities are constant enough to build a plan around them.

Business capability modeling is essential for technology leaders to shape their IT architecture. For enterprise architects, it empowers rationalization activities and visibility to improve strategic decision making. And, for executives, it provides transparency into the return on investment (ROI) they are receiving from the technologies used by operational staff (see Figure 1).

Figure 1

Composition of a Business Capability: Employee Management

EMPLOYEE MANAGEMENT

PEOPLE
Talen acquisition | HR

PROCESS
Attract | Screen | Interview | Hire | Onboard | Retain

TECHNOLOGY
Career Site | Applicant Tracking System | Benefits Portal
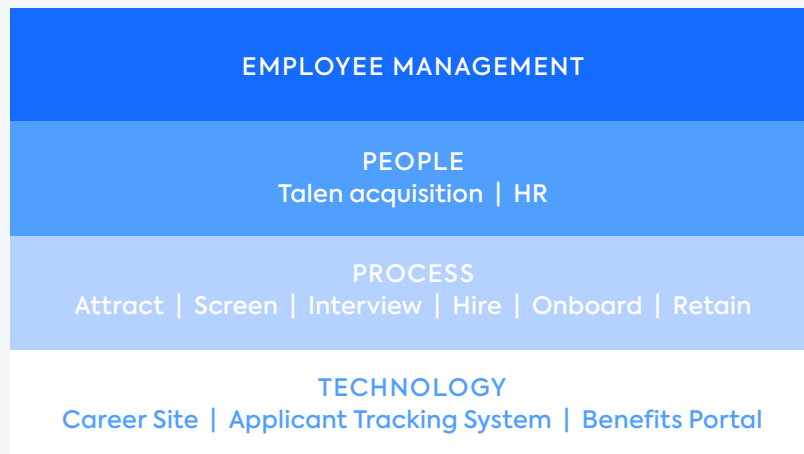
Every business capability is comprised of people, processes, and technology

Source: LeanIX GmbH

Use Cases for Mapping Business Capabilities

It is impossible to realize the benefits of business capabilities without taking the time to map them out across the entire organization. However, once the work is done, enterprises will have set the foundation for promoting better, strategic decision making, and faster innovation.

See Table 1 for 10 key outcomes that can be achieved through business capability mapping and read on for three specific use cases.

Table 1
10 Key Outcomes of Business Capability Mapping

- Understand how a business currently operates, and what needs to be done to meet present and future challenges.

- Define "what" a business does, as well as "how" it does it.

- Provide a common language for discussion and planning across functions.

- Gain alignment from strategy to execution.

- Involve the right stakeholders for all projects.

- Streamline complexities inherent with mergers & acquisitions.

- Delineate roles across the enterprise with precision.

- Identify and mitigate technology risks.

- Reduce costs by eliminating redundancies.

- Accelerate growth through innovation.

Source: LeanIX GmbH

Post-merger harmonization

Since business capabilities structure a company based on its core activities, capability maps are a central tool in setting the stage for successful mergers and acquisitions (M&As). Business capability maps provide organizations the playbook to architect a best-fit technical structure for the newly combined enterprise. These maps assign applications to user groups and business capabilities. This holistic view of applications and their business value makes it possible to assess redundancies and gaps in IT.

Imagine a multinational insurance conglomerate has recently acquired a regional insurance company. During the synchronization process, technology leaders from both teams sit down and evaluate their supporting applications. The team will have to decide which applications are going to be used moving forward, and which should be phased out. By mapping out the capabilities of the combined company, stakeholders can easily determine the most suitable course of action for investing or divesting in applications across the IT landscape. From there, they can create the strategic business case for their decisions and provide that to senior executives.

LeanIX customer, Helvetia, was able to eliminate redundancies and realize substantial savings in the merger with Nationale Suisse. In their half-year report, Helvetia reported IT as a significant contributor to these savings. Establishment of transparency was a crucial first step towards doing so. Today, the established LeanIX inventory serves as the single source of truth that strategic IT management decisions are based on.

Technology risk management

By linking business capabilities to applications, and linking those applications to technology components, information security leaders can look at a business capability map and perform a quick strategic risk assessment. Having a clear view of technology component dependencies lets stakeholders identify outdated or at risk elements, and act before a security incident occurs. It also enables people to visualize any unintended consequences that could result from a change to the technology landscape. This helps to validate or delegitimize business initiatives before they go into effect (see Figure 2).

Figure 2

Risk Dependency Map by IT Component, Application, and Business Capability
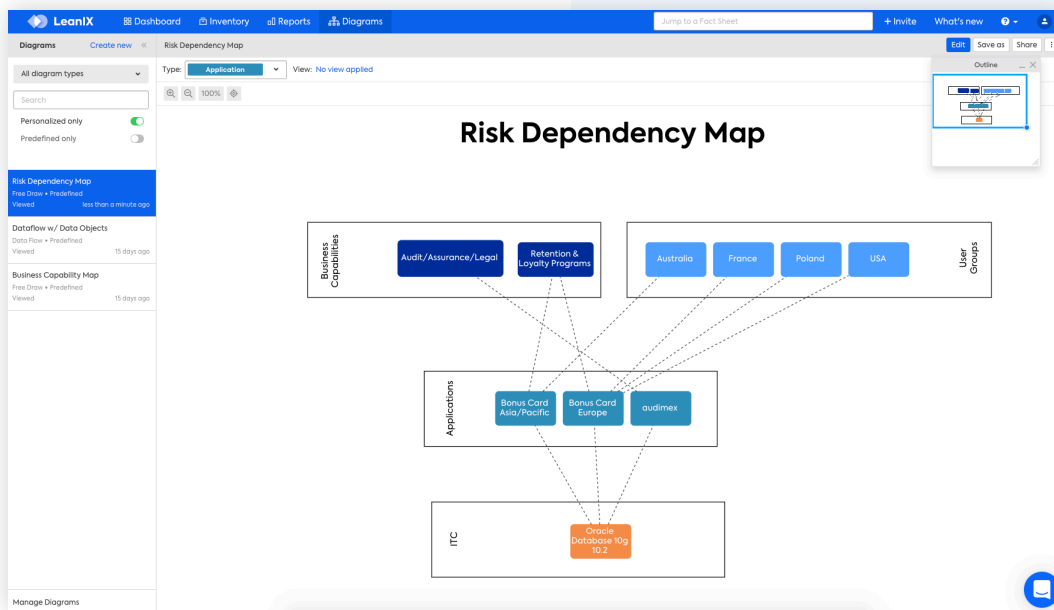
Source: LeanIX GmbH

Application rationalization

In this digital age, companies need to innovate fast to remain competitive. Business capabilities are a great help in structuring thoughts on how to transform business and IT to meet the evolving demands of customers. Managing digital transformation efforts with the aid of a business capabilities map enables more rapid innovation and better prioritization of efforts.

Once organized by capability, IT assets can be leveraged across functions to save cost, eliminate redundancies, and streamline procurement. With every stakeholder having visibility into who does what within the organization, business capability maps break down information silos and accelerate times to market similar to how this occurs from a DevOps and strategic perspective.

See how Haworth used LeanIX to accelerate its global growth through business and IT alignment.

Create Your Business Capability Model in 4 Steps

Regardless of a company's specific goals, and as overwhelming as modeling its capabilities may seem, the most important part of aligning IT and business goals is getting started. When working with our clients, LeanIX breaks the process down into four, easy-to-follow steps.

1. Understand the company's goals

IT needs to know the goals and directions of their business. Otherwise, it's impossible to make decisions that align technology required for promoting its growth. Start by reviewing your company's goals for the future and involve people that define the strategy. Get their buy-in by explaining the value of creating a business capability model.

2. Define your business capabilities

Think about the major capabilities your business needs to operate. On the first level there should be only a handful of critical ones, which are typically defined by department. You can build them by thinking both from top-down (what does the company want to achieve) and from bottom-up (what organization, processes, and people are in place). Download our free template, Best Practices to Define Business Capability Maps, to get an idea of how yours might look (see Figure 3).

Figure 3

Best Practices to Define Business Capability Maps
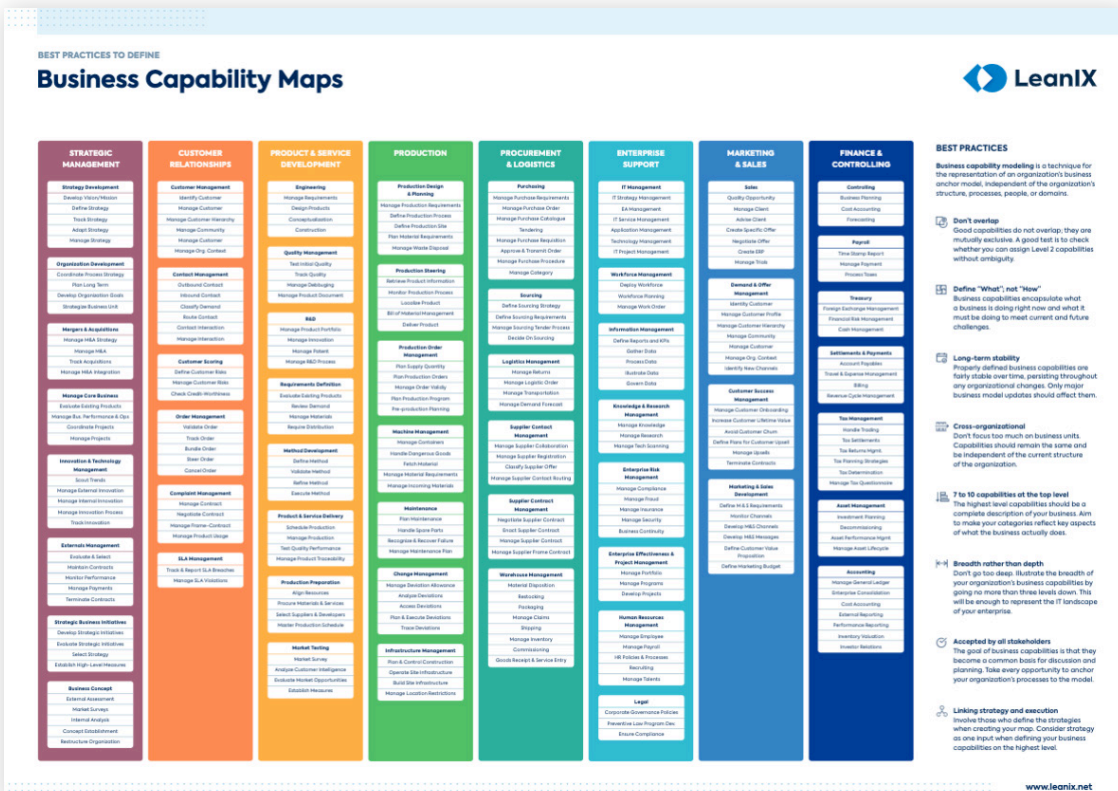
Source: LeanIX GmbH

Figure 4
4 Steps to Create a Business Capability Model

| UNDERSTAND GOALS | DEFINE CAPABILITIES | ASSESS CAPABILITIES | LINK TO APPLICATIONS |

Source: LeanIX GmbH

3. Assess your capabilities

Not all business capabilities are equal in terms of value for the customer and financial impact. After you understand your company's strategy and goals, assess capabilities based on criteria that will lay the groundwork for future analysis and planning.

4. Link capabilities to applications in LeanIX

The link between business capabilities and applications creates a bond between business and IT. In the final step, use the LeanIX Enterprise Architecture (EA) Suite to link your business capabilities to your software applications. Unlike IT components, applications are always linkable to a specific business purpose. Applications are the perfect intermediary for business architecture and technology architecture because everyone, in every department uses them to create value for the business. With the LeanIX EA Suite, you can get a complete, customizable overview of the relationship between business capabilities and the applications that support them (see Figure 4).

Business Capabilities Reports and Views

Figure 5

Technology Risk of an Application Landscape
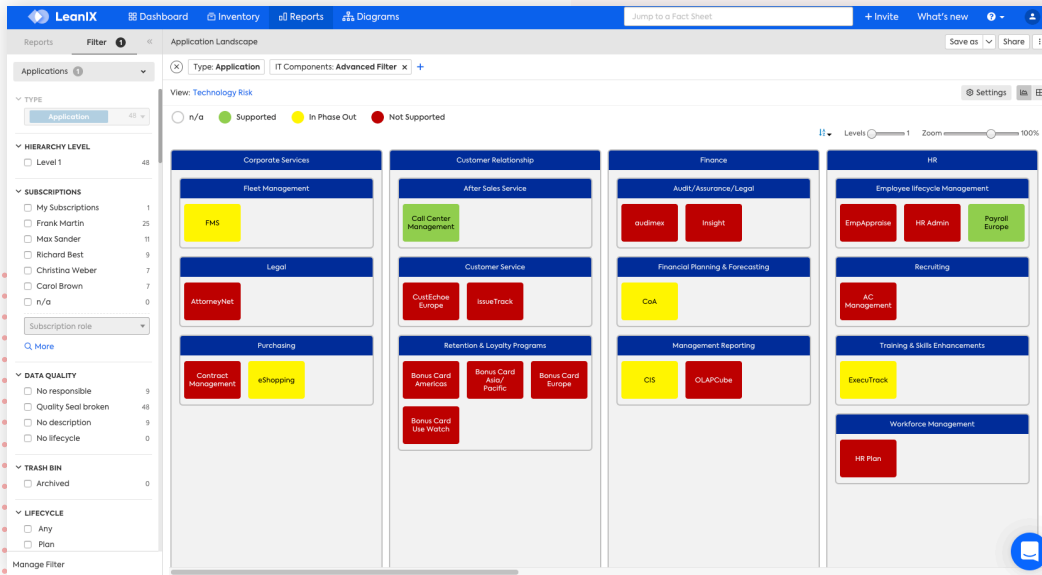
Source: LeanIX GmbH

After defining your business capabilities and linking them to your applications within LeanIX, it's time to perform a wide range of analysis. LeanIX's out-of-the-box reports quickly help you visualize your business' technology landscape.

In this screenshot, the business capability Customer Relationship Management is supported by seven applications and/or IT components. Six out of the seven underlying technologies are at risk and need immediate remediation (see Figure 5).

Figure 6

View of Data Object Classification

In this view, IT and business leaders can see the data object classification for all supporting IT components. With data compliance and consumer privacy rights more regulated than ever, it is imperative to know what data lives where across your IT landscape (see Figure 6).
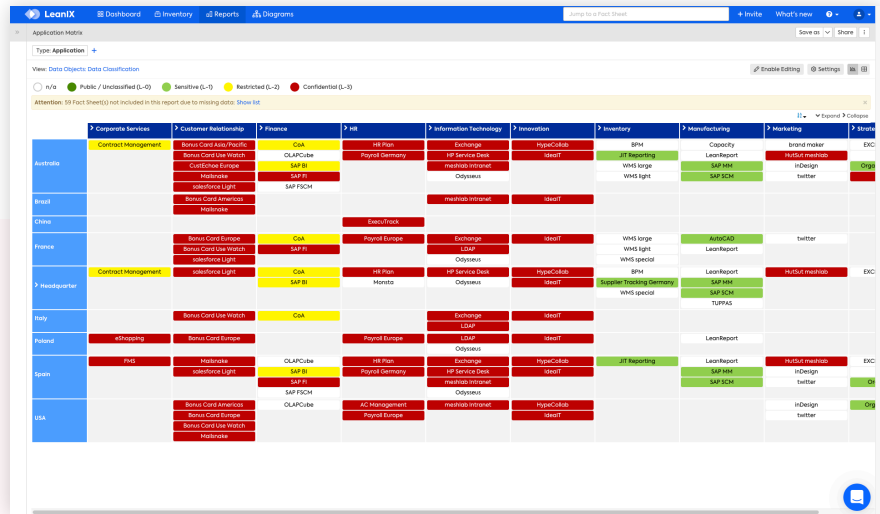
Source: LeanIX GmbH

Figure 7

Application Lifecycle by Business Capability
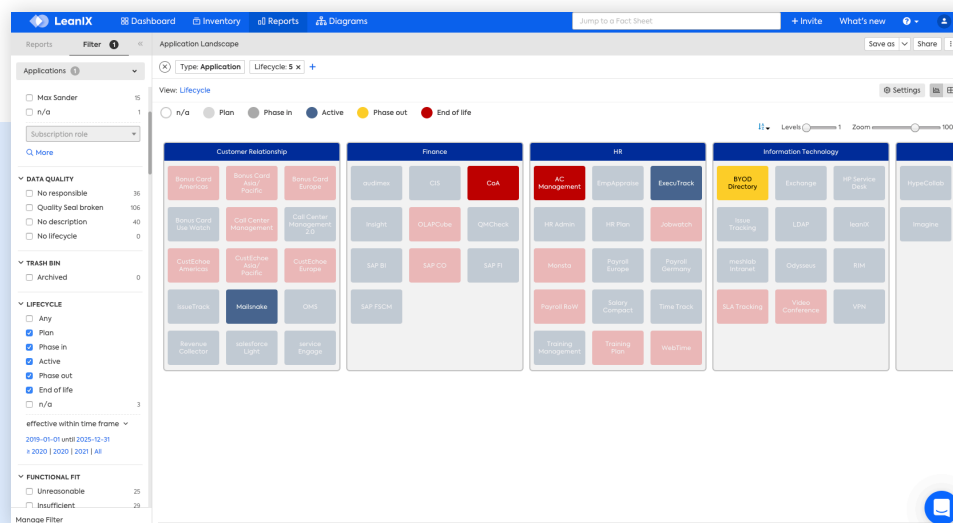
View the lifecycle of each application supporting a business capability to identify areas that demand attention. This will enable you to build an application lifecycle roadmap to improve the forecast of technology needs (see Figure 7).

Source: LeanIX GmbH

Figure 8
**Application Matrix Report
by Functional Fit**
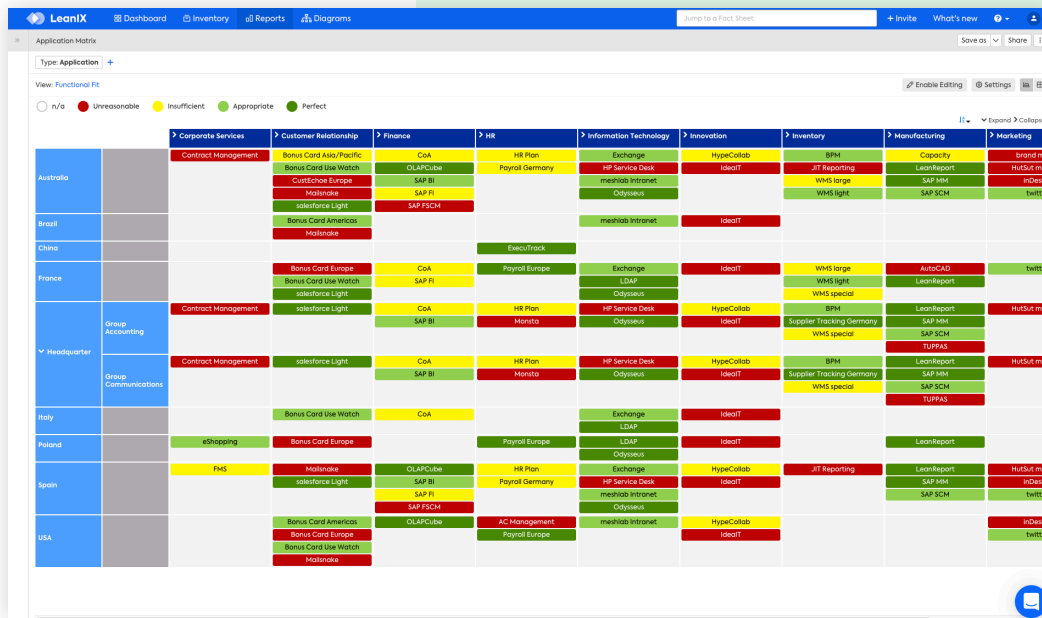
Source: LeanIX GmbH

This view lets you analyze the functional fit of all applications supporting your business capabilities. As part of your application rationalization activities, reviewing the technical and functional fit of technology is made easy with LeanIX (see Figure 8).

From Model to Value: Three Case Studies

The three cases studies in this section illustrate how customers used the LeanIX Enterprise Architecture Suite to model their environment. Each of these organizations come from different industries and have to conquer unique challenges to reach their desired outcomes. Read on to understand the benefits they saw through business capability mapping with LeanIX.

Aligning IT investment to business strategy

The logistics industry is one of intense competition. Differentiation is based mainly on price, making costs a particular point of focus. IT always becomes a welcome target for potential savings. Slash-and-burn policies have put logistics companies' IT in a position where innovation is next to impossible. Using business capabilities to drive analyses can support a smarter way of deciding on IT investments.

A LeanIX customer in the logistics industry made the decision to reconcile its IT investments with the strategic priorities of the business. They used the LeanIX Enterprise Architecture Suite to help define and assess business capabilities based on their financial impact and value they provide for customers. The team created a heat map that filtered capabilities by business criticality and cost.

In the resulting report, it became apparent that the "Audit / Assurance/ Legal" business capability absorbed much of the IT budget. As a next step, the project team further investigated the related applications and their underlying infrastructure. They came up with a list of potential activities like reconciling SLAs, switching to SaaS solutions, decommissioning redundancies, and more. The business capability analysis helped them to properly focus their energy on what would make the biggest impact on the organization's bottom line (see Figure 9).

Figure 9
IT Costs by Business Capability
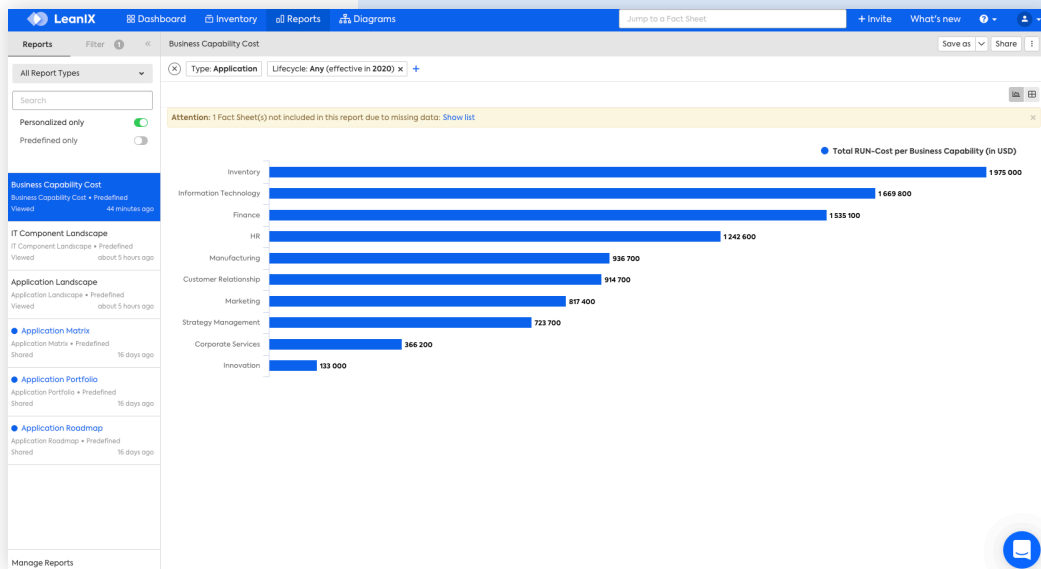
Source: LeanIX GmbH

Technology risk management (TRM)

Another LeanIX customer, a large insurance company with operations in more than 25 countries, used the LeanIX Enterprise Architecture Suite to assess and mitigate their technological risks. The organization's IT infrastructure is spread throughout the world to support its global lines of business. Past security incidents and related outages had caused severe financial damage, and increasingly stringent regulations put additional impetus on the need for TRM. The CIO decided to establish a risk assessment based on business capabilities (see Figure 2 on page 5).

Using LeanIX, they developed a risk dependency map showing the relationship between IT components, applications, and business capabilities. This view helped to illustrate complex dependencies and ensure that creating a secure technology ecosystem was tackled from a holistic perspective. Looking at the diagram, threats could be identified from the infrastructure level, and then traced up to the severity of implications for the business. Combined with further information about their applications' lifecycles and technical fit, also populated within LeanIX, IT could determine which risks to accept, and which to mitigate.

Application rationalization

A multinational player in the automotive supply industry acquired a leading manufacturing robotics company. The integration of IT systems had been postponed during the hectic acquisition phase. In the months following, it was discovered that many redundant processes and IT systems were in existence. For the merger to succeed, teams needed to leverage synergies by rationalizing their application portfolio.

The project team used LeanIX to start mapping the capabilities of the acquired company to their existing model. It quickly became apparent that some new capabilities needed to be added, however, especially for support functions, capabilities were very similar across the board. In particular, the Human Resources capability promised a lot of potential for consolidation.

The team mapped its application usage by country and the HR capability to create a single, matrixed view. This information allowed them to understand well these applications supported the business, then come up with a shortlist of which applications to keep and which to phase out (see Figure 8 on page 10).

Summary

Business capabilities have the potential to serve as a common language between business and technology leadership. If properly defined, they can be used to save money, reduce risk, and accelerate growth. Best practices show that business capability models of companies with a lean philosophy have approximately 7 to 10 top-level capabilities and no more than three levels of depth. The resulting model can be used to support analyses that align IT investments with strategy, manage technology risks, and rationalize application portfolios. LeanIX supports fast and thorough creation of these analyses with out-of-the-box, best-practice reports.

Want to learn how hundreds of global enterprises have used the LeanIX Enterprise Architecture Suite to map their business capabilities and architect their IT landscape? Schedule a personalized demo.

FREE DEMO

Are you ready for a clear picture of your organization's business capabilities?

Let LeanIX show you the way.

Schedule a Demo! →

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LeanIX offers a Software-as-a-Service (SaaS) application for driving Enterprise Architecture and Cloud Governance, enabling companies to accelerate their IT transformation. From on-premises to cloud native and microservices, architecture teams using LeanIX have the power to strategically support their business and take decisions faster. More than 270 global brands including Volkswagen, adidas, Bosch, DHL, Santander, Atlassian, and Zalando rely on LeanIX to improve transparency, visibility, and drive real-time efficiencies. LeanIX addresses IT's critical need to ensure high-quality, real-time data is accessible to stakeholders whenever needed. Use cases include Cloud Governance, Application Portfolio Management, and Technology Risk Management. LeanIX was founded in 2012 by Jörg Beyer and André Christ. The company is headquartered in Bonn, Germany, with U.S. headquarters in Boston, Massachusetts, and an office in Hyderabad, India.