

# Midsize Enterprise Application Delivery, Part 3 — Application Strategy

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Initiatives: [Midsize Enterprise CIO Leadership](#); [Enterprise Applications Strategy](#); [ERP](#); [Midsize Enterprise Technology Leadership](#)

MSE CIOs must sufficiently prepare when selecting an application vendor or modernizing their ERP foundation. They should create their application strategy based on the business strategy and business capability model to ensure best results in business outcomes.

## Overview

### Key Findings

- Organizations with low alignment between the application strategy and the business outcomes are more likely to have unmanageable levels of technical debt.
- Formal application strategies that adequately address rapid changes in technology and business demand are a challenge for midsize enterprise (MSE) CIOs due to limited resources.
- Application portfolio governance is difficult in an MSE due to the general lack of roles such as application or enterprise architect.

### Recommendations

MSE CIOs responsible for creating an application strategy must:

- Develop the application strategy in collaboration with the business by using a business capability model and a pace-layered application strategy approach.
- Develop a clearly defined application roadmap by using business outcomes as milestones.
- Take responsibility for the application strategy by leading the effort and championing the defined approach.

## Introduction

This is the third document in a three-part series designed to help MSE CIOs develop solid application plans that align business strategy, business capabilities and application strategies. To ensure context, CIOs should read the notes in sequence, since each is a prerequisite for the next. The other two notes are:

- [Midsize Enterprise Application Delivery, Part 1 — Business Strategy](#)
- [Midsize Enterprise Application Delivery, Part 2 — Business Capability Model](#)

Business managers and users in MSEs want modern, easy-to-use applications that can be quickly deployed to solve specific problems, but also provide reliability, data integration and security. MSEs find it difficult to create and maintain an application strategy due to:

- A lack of strategic resources
- Not involving stakeholders to understand broad applications requirements
- Reacting to business requirements on specific applications that may not fit

Too often, the application strategy is overly focused on technologies, platforms and tools, and too little on the business needs and expected outcomes.

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*An application strategy is simply a step-by-step roadmap for evolving the application portfolio, processes and organization to meet the strategic needs of the business, while minimizing the cost of building and maintaining the portfolio.*

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Gartner client inquiries reveal that MSE CIOs have a tendency to select a vendor without an application strategy or business capability model in place. This is a serious error. You cannot select a vehicle (bicycle, car or plane) without knowing the destination, nor can you select the right vendor without knowing the goal. In [Expert Insight Video: How to Select an ERP — 4 Steps CIOs Must Take Before Starting](#), we show that the steps before selecting an ERP vendor are: (1) prepare (business strategy and business capabilities), (2) assess (culture and software), (3) plan (application strategy) and then (4) act. This is, of course, not limited to ERP.

As part of the broader IT strategy, the application strategy must be clearly defined and designed to:

- Align technologies and applications with business outcomes, taking into account the business strategy, capabilities and processes.
- Outline the technical and methodological approaches that will be used to deliver applications to meet business needs.
- Provide the necessary flexibility and agility as the business strategy evolves.

Figure 1 illustrates how the foundation of every successful application strategy is the business strategy and a business capability model that are all developed together with the business.

**Figure 1: Business Strategy and Business Capabilities Are Foundational for a Successful Application Strategy**

### Business Strategy and Business Capabilities Are Foundational for a Successful Application Strategy



Source: Gartner  
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**Gartner**

As with any other strategic initiative, application strategy should be a continuous process that MSE CIOs must lead. Otherwise, they will end up with a disparate application portfolio that may meet needs only in isolation and create unnecessary business complexity, inconsistent data (no single point of truth) and increased total cost of ownership (TCO). This issue is becoming more acute as digital business increases the pace of business.

The Gartner 2023 Enterprise Application Business Value Metrics Survey shows that 41% of respondents reported that organizations that have low alignment between the application strategy and the business outcomes are more likely to have unmanageable levels of technical debt than those that are highly aligned (11%).<sup>1</sup>

This last document in the series informs CIOs how to:

- Use Gartner's Pace-Layered Model to build the application strategy.
- Develop a roadmap based on business outcomes.
- Lead the application strategy development.
- Take action (after reading the three-part series).

## Analysis

### Use Gartner's Pace-Layered Model to Build the Application Strategy

MSEs usually have less formal, more intimate collaboration — C-suite leaders and employees typically know each other and work together with fewer borders than is typical in large organizations. MSE CIOs must use this advantage when building the application strategy. Gartner's Pace-Layered Application Strategy provides a framework that enables IT to support standard business activities while also being responsive to differentiated business needs.

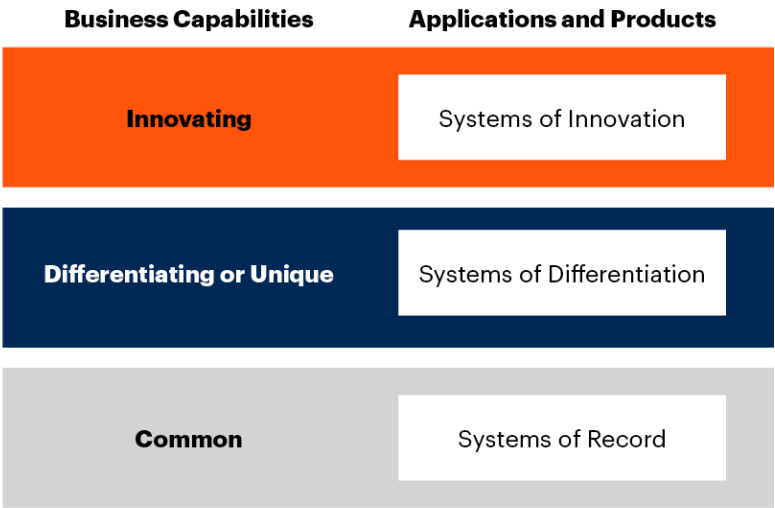
One of the keys to developing the application strategy is listening carefully to the way the organization describes its vision for particular parts of the business. This often falls into three categories of ideas:

- **Common:** Foundational business capabilities in which leaders are happy to follow commonly accepted ways of doing things that are predictable and change fairly slowly, focusing on standardization and operational efficiency. Applications and products supporting these capabilities are categorized as "systems of record."
- **Differentiating or unique:** Business capabilities that enable unique company processes or industry-specific capabilities and that sustain the company's competitive advantage. Applications and products supporting these capabilities are categorized as "systems of differentiation."
- **Innovating:** Attributes of the business in which leaders think of an early-stage concept and want to experiment with a proof of concept (POC) or a minimum viable product (MVP) and go through several iterations quickly. Applications and products supporting these capabilities are categorized as "systems of innovation."

Figure 2 illustrates how these ways of thinking apply to various systems defined as “layers” in Gartner’s Pace-Layered Model: systems of record, systems of differentiation and systems of innovation.

Figure 2: Categories of the Gartner’s Pace-Layered Application Strategy

Categories of the Gartner’s Pace-Layered Application Strategy



Source: Gartner  
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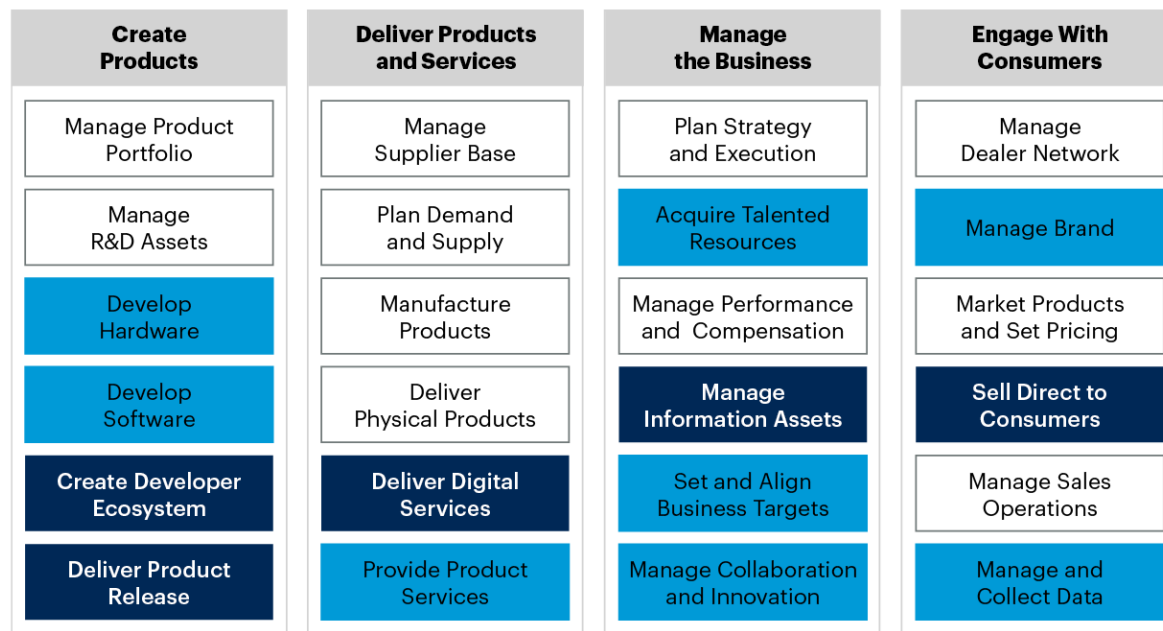


Using the business capability model that was developed in the second part of this series, CIOs can map the capabilities to the different layers. Figure 3 illustrates an example of this concept.

**Figure 3: Example: Business Capability Map for Consumer Electronics Manufacturer, Segmented in Pace Layers**

**Example: Business Capability Map for Consumer Electronics Manufacturer, Segmented in Pace Layers**

□ Record   ■ Differentiation   ■ Innovation



Source: Gartner  
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**Gartner**

By segmenting business capabilities into the three pace-layer categories, business and IT can clearly see which business capabilities to focus on. MSE CIOs may have to break down high-level capabilities to more granular subcapabilities to clearly segment them into the pace layers. However, they should avoid modeling capabilities too minutely but, rather, go just deep enough to clearly define pace layers that will support decision making on architecture and investment strategies.

MSE CIOs should also avoid customization (this is not always possible) with the systems of record and, instead, change the business processes to align to best-practice processes that are embedded in the software solutions they are licensing.

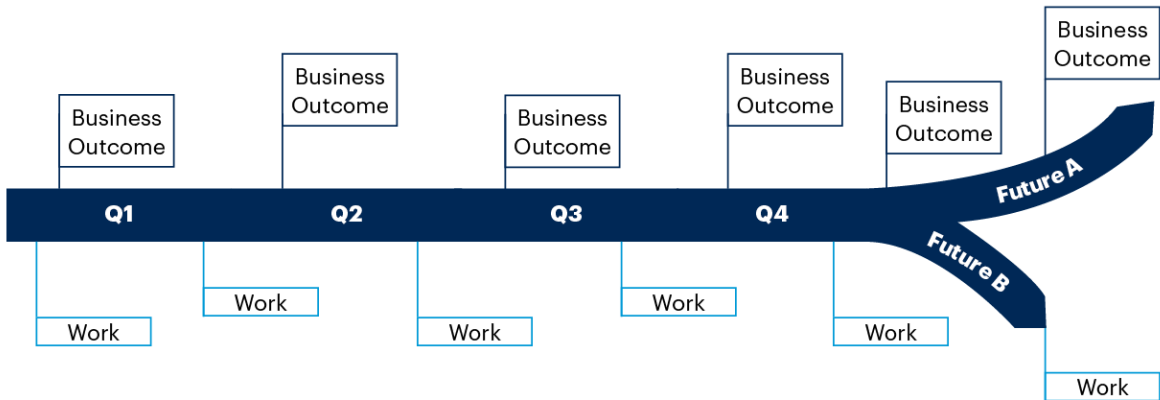
This approach can also be used, for instance, to guide the process of selecting a major application, such as an ERP system, by focusing more on differentiating capabilities. Too much focus on standard functionality (which most out-of-the-box solutions would deliver) can actually negatively affect the selection process. For more information on this topic, see [Use Pace Layers to Align Your Application Strategy With Your Business Strategy](#).

Develop a Roadmap Based on Business Outcomes

After identifying the necessary applications using Gartner’s Pace-Layered Model, the next step is developing a roadmap as part of the strategic planning effort. Business outcomes should be milestones of any application strategy. Figure 4 illustrates how desired business outcomes are driven by “work” or measures. It is important that business outcomes can be measured in quantity and time. For instance: Increase customer satisfaction by 20% by the end of 2024.

Figure 4: Business Outcomes Are the Milestones of an Application Strategy or Product Roadmap

Business Outcomes Are the Milestones of an Application Strategy or Product Roadmap



	Business Outcome	Business Benefit
Before Work Begins	Define business outcome in terms of the required level of performance of a leading indicator.	Estimate any financial benefits of achieving it and identify any nonfinancial benefits.
During Work Period	Use as a requirement and testing criteria. For agile after MVP, measure progress toward outcome.	
After Work Delivered	Measure level of performance to demonstrate success.	Validate nonfinancial benefits and the aggregate estimates of financial benefits achieved.

Source: Gartner  
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For more information on this topic, see [How to Use Product Roadmaps for Funding and Governance of Agile Product Delivery Teams](#).

## Lead the Application Strategy Development

In midsize organizations, we often see small IT teams supporting infrastructure and applications with fewer than 20 team members. It is the CIO's or IT leader's task to take responsibility for application strategy development efforts, in close collaboration with the business.

Although it is necessary to involve the business frequently, MSE CIOs must take it upon themselves to lead the enterprise to a successful application strategy. To be successful, they need a C-suite sponsor — ideally, the CEO.

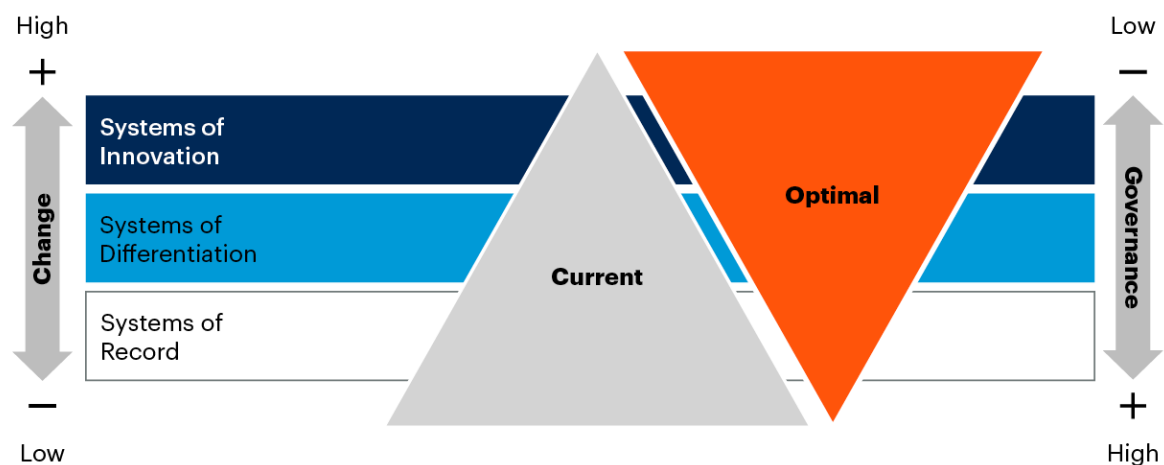
Before approaching the business with all the different models and concepts described in this three-part research series, you as a CIO must be 100% clear about these concepts and why they are necessary. Only then can you explain and, if needed, convince the business that the defined approach is the right one.

The goal is to reduce business friction that arises when the pace of application change is out of sync with the pace of business strategy. If MSE CIOs lose sight of this, they lose the trust of their stakeholders. It is important to measure progress by mapping application spending to the pace layers to set a baseline. As they execute on the strategy, CIOs can shift investment focus toward differentiation and innovation. Most organizations invest too much in systems of record and too little in systems of differentiation and innovation. This means missing an opportunity for innovation (see Figure 5).



Figure 5: Example: Segmentation in Pace Layers

## Example: Segmentation in Pace Layers



Source: Gartner  
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CIOs should communicate results clearly and regularly to reinforce the value of ongoing application strategy planning.

For more detailed information and techniques for collaborating effectively with executive leaders, see [Midsize Enterprise CIOs: Create Leadership Parity Using 3 Top Practices](#).

## Take Action Based on This Three-Part Series

Here are Gartner's recommendations for next steps once MSE CIOs have read all three research notes in this series:

1. Prepare yourself thoroughly, keeping in mind that business outcomes are more important than technologies.
  - Explain your approach to someone you trust (not necessarily within the organization — it could be a friend, as long as you are not revealing proprietary information).
  - Encourage this person to be persistent about getting clarification from you if anything is confusing.
  - Allow yourself to be challenged.
  - Involve the business only when you are confident in explaining why this is the right approach.
2. Ask yourself, your team and the business the right questions:
  - How do we translate the business strategy into execution (i.e., applications)?
  - How can we best identify the capabilities that support business outcomes?
  - Who knows the needed capabilities best?
  - What capabilities will make a difference for the enterprise?
3. Build a business capability model that answers the questions above.
  - Assign pace layers to the business capabilities to determine the right model and visualize it.
  - Identify the areas you want/need to focus on and those where you want to put in the least amount of effort.
  - Adjust your business capability mapping to the three pace layers over time. A business capability that is mapped as a system of differentiation today may be mapped as a system of record in the future.

The bottom line: MSE CIOs should follow a clear path from business strategy, develop a business capability model and use that to build a pace-layered application strategy. This will result in increased standardization, improved delivery cadence and selection of the most efficient sourcing strategy.

## Evidence

<sup>1</sup>**2023 Gartner Enterprise Application Business Value Metrics Survey:** This study was conducted to understand how organizations manage their enterprise cloud application portfolios in the CRM, digital workplace and ERP functions. The research was conducted online from March through May 2023 among 222 respondents from organizations across all industries in North America (n = 137) and Europe (n = 85) with annual revenue of \$500 million or more. Soft quotas were established for company size, type of industry, application portfolio, and respondent's function type and job level to ensure a good representation across the sample. Organizations were required to use cloud or both on-cloud and on-premises applications. Respondents were midlevel managers or above and directly involved in or knowledgeable about the application portfolio. They were also required to be responsible for one of the following: define/create the business case for application portfolio investments; track the success of application portfolio investments; or manage/oversee the application portfolio (i.e., plan and execute the investment roadmap). In addition, respondents were required to be involved in building the business case for new application investments, monitoring/measuring the business benefits of new application investments, and communicating the progress against the original business case to key stakeholders. *Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.*

## Document Revision History

Midsize Enterprise Application Strategies, Part 3 — Create the Application Strategy - 13  
April 2021

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## Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

[What Is Gartner's Pace-Layered Application Strategy and Why Should You Use It?](#)

[How to Use Product Roadmaps for Funding and Governance of Agile Product Delivery Teams](#)

[How to Develop a Pace-Layered Application Strategy](#)

[Midsize Enterprise CIOs: Inspire New Ideas in the C-Suite With These Techniques](#)

[Quick Answer: Where Do You Start When Creating an Enterprise Applications Strategic Plan?](#)

[Tool: Strategic Plan Template for Enterprise Applications](#)

## Quick Answer: What's the Difference Between Strategy, Strategic Plans and Operational Plans?

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