

# Midsize Enterprise Application Delivery, Part 2 — Business Capability Model

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

Midsize enterprises must build an application portfolio that enables the company's business strategy. MSE CIOs should use business capability modeling to build a fit-for-purpose application portfolio that supports the business capabilities and drives business outcomes.

## Overview

### Key Findings

- MSE CIOs who are unfamiliar with business capability modeling may not see the gap between strategy and execution in their enterprise application delivery.
- MSE CIOs often try to build an enterprise business capability model in a vacuum or isolation. They underestimate the importance of collaborating with business leaders to construct and ratify the enterprise business capability model.
- MSE CIOs do not take advantage of business capability modeling as a tool to identify applications and IT assets that are necessary to enable business strategy.

### Recommendations

MSE CIOs focused on building an application portfolio to drive business outcomes must:

- Bridge the gap between strategy and execution by translating business strategy into business capabilities.
- Construct a functional business capability model by socializing its benefit and engaging business leaders in the building process.
- Prioritize applications investment by leveraging business capability modeling in different ways.

- Ensure the success of application investment by avoiding five common mistakes in business capability modeling and application portfolio management practices.

## Introduction

This is the second of a three-part series designed to help MSE CIOs oversee or develop solid application plans that align business strategy, business capabilities and application strategies. It focuses on how MSE CIOs should align their application portfolio to current and future-state business capabilities.

To ensure context, CIOs should read the notes in sequence, as each is a prerequisite for the next. The other two notes are:

- [Midsize Enterprise Application Delivery, Part 1 – Identify the Business Strategy](#)
- [Midsize Enterprise Application Delivery, Part 3 – Application Strategy](#)

The 2023 Gartner CIO and Technology Executive Survey shows that 42% of MSEs are planning to increase their investment in application modernization and another 34% in ERP.<sup>1</sup> Many MSEs take a business requirements, use case, vendor-first approach when considering a major application modernization or purchase without considering their enterprise's overarching business strategy. They often fail to use a systematic approach to translate their business strategy into an application strategy. To remedy this, MSE CIOs should use an enterprise business capability model that will give a clear picture of the current and future-state capabilities needed to drive targeted business outcomes.

**A single business capability is an action-oriented categorization of what an organization must do to deliver its business model's value propositions or mission to the organization's customers or citizens. Business capability modeling is a technique for representing the ways in which organizations combine resources, competencies, information, technology, processes and their environments to create unique competitive possibilities and deliver value to customers or citizens.**

To construct an enterprise business capability model, MSE CIOs and their teams must engage business leaders as orchestrators, facilitators and navigators. This ensures a common approach (rather than technology-based) language. They can use the business capability model as input to identify specific systems and/or applications necessary to support current and future-state business capabilities that, in-turn, drive business. Figure 1 illustrates how business capabilities are foundational to creating a successful application strategy.

**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



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This research:

- Explains how to translate business strategy into a business capability model.
- Provides insight on how to engage and involve the business.
- Shows how to use the business capability model under different scenarios.
- Identifies the five common mistakes organizations make when they begin to build a business capability model.

## Analysis

## Translate the Business Strategy Into a Business Capability Model

New business models bring together new customers, services and experiences, and use the business ecosystem. The business model is brought to life in the operating and service model — shaping people, processes, information and technology resources. Business capabilities are the linchpin that connects the business and operating models.

Business capability models illustrate the link between the business's strategic capabilities and specific people, processes, information, and business and technology investment decisions. These are very different from the implementation details of specific business processes, technologies, applications or services (see [8 Best Practices for Creating High-Impact Business Capability Models](#)).

**Don't confuse business capabilities with business processes: A business capability identifies what the business needs to do to achieve the business strategy. A business process is about how a business works/operates. A process may span business capabilities and value streams. A granular process may fit within a value stream and capability.**

MSE CIOs can use the business capability model to influence investment decisions about the applications that will support business processes (more detail on this topic is covered in Part 3 of this series). This will influence the roadmap of application investment and delivery. Besides using the business capability model for their application strategy, CIOs can also use the model to prioritize high-level requirements in vendor selection. Figure 2 shows how the business capability model helps translate and operationalize the business strategy.

Figure 2: Business Capability Models Help Translate and Operationalize Business Strategy

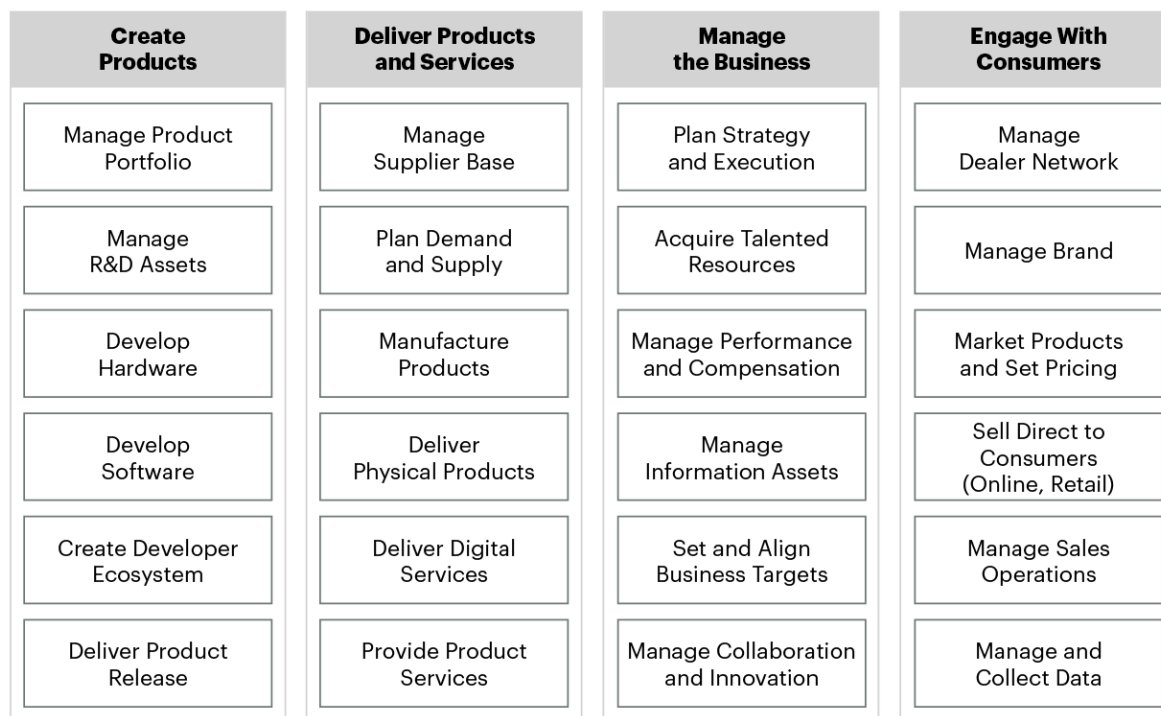
Business Capability Models Help Translate and Operationalize Business Strategy



Source: Gartner  
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Figure 3 shows a simplified example of a business capability model that is based on a consumer product manufacturer. Note that business capabilities (labels) are best described in a “verb-noun” structure. By applying this naming convention, business-IT teams will be less likely to use department names (customer service) instead of the capability (service the customer).

Figure 3. Example: Consumer Product Manufacturer

**Example: Consumer Product Manufacturer**

Source: Gartner  
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Figure 3 shows a two-level business capability model (Level 0 and Level 1), where “Create Products,” “Deliver Products & Services,” etc., represent the first level and the white boxes below represent the second level, detailing these capabilities. A business capability model is, of course, not limited to two levels. However, especially when constructing an initial version, a two-level model is the right starting point. Simplify wherever possible (see [Ignition Guide to Creating a Business Capability Model](#)).

## Jointly Construct a Business Capability Model

Interactions with many MSE CIOs show that business leaders are often not fully committed to spending time on constructing a business capability model as they do not see value in supporting this task. MSE CIOs must help business leaders understand the importance and value derived from constructing an enterprise business capability model. Do this by answering the question: “Why do we need this?” Or simpler (and always applicable), “WIIFM — What’s In It For Me? — as the business leader, how do I benefit?”

## Start With “What” and “Why”

In simple terms, the answer to “what” and “why” is: A business capability model is the linchpin between business and IT. It brings clarity to dependencies and interdependencies of different applications and helps prioritize application functionalities.

## Be Well-Prepared

Gartner analysts are often asked to provide a template that can be used as a starting point. We suggest that you refrain from this approach for good reason: Starting with a predefined model often leads to business signoff without any valuable discussion. Hence, this approach produces limited business value:

- It leads to a lack of strategic differentiation and competitive advantage.
- It prevents out-of-the-box innovation.
- It results in less focus on customer-perceived value.

MSE CIOs will be most successful if they build a first draft of a business capability model (vet it with Gartner resources, if necessary) before sharing it with business leaders. Acting as the orchestrator, provide fragments of the prepared model to ignite the discussion and overcome roadblocks in the process.

## Facilitate a Workshop With the Business

With proper support of executive peers, MSE CIOs should consider facilitating a workshop with business leaders to build the enterprise business capability model. Start the session with an introduction that includes a solid value proposition (the “why” and “what”) for doing business capability modeling, followed by the “how” and the process of the workshop:

- Explain why this is important. Refer to the initiative that is triggering the process, like an ERP initiative.
- Define what a business capability is and what not (see [Tool: Building a World Class Business Capability](#)).
- Show an example of a simplified business capability mode (the examples shown in this document will help you, as will [Tool: Business Capabilities Model for ERP](#)).
- Focus first on future-state business capabilities.
- Explain why it’s not a good idea to start with a generic reference model or out-of-the-box templates.

- Ignite the workshop with a single capability from your preparation without revealing your entire model. *Remember:* It is important that the participants put their thoughts and experience in the model.

Gartner provides a rich [Toolkit: Workshop for Constructing an Initial Business Capability Model](#) that includes sample slides and a lot of additional material.

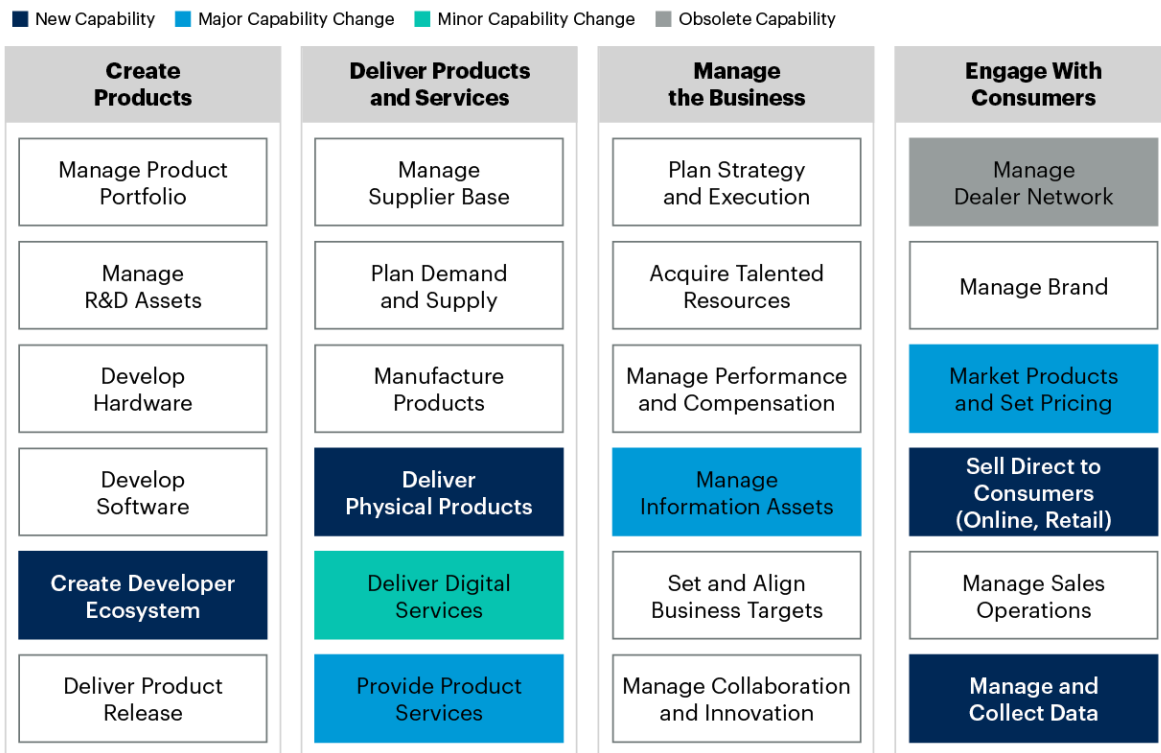
## Use the Business Capability Model to Make IT Portfolio Decisions

Once the business capability model has been developed, it can be used for different purposes. Identify changes in capabilities with a heat map (see Figure 4). Also, identify future-state capabilities, capabilities where major or minor change is expected (due to changes in the overall business strategy), or even obsolete capabilities. It is very important to allow sufficient time to identify future capabilities. They can be derived from the business strategy, as indicated in Part 1 of this series.



Figure 4: Highlight Future Capabilities, Major or Minor Change and Obsolete Capabilities

## Example: Highlight Future Capabilities, Major or Minor Change, and Obsolete Capabilities



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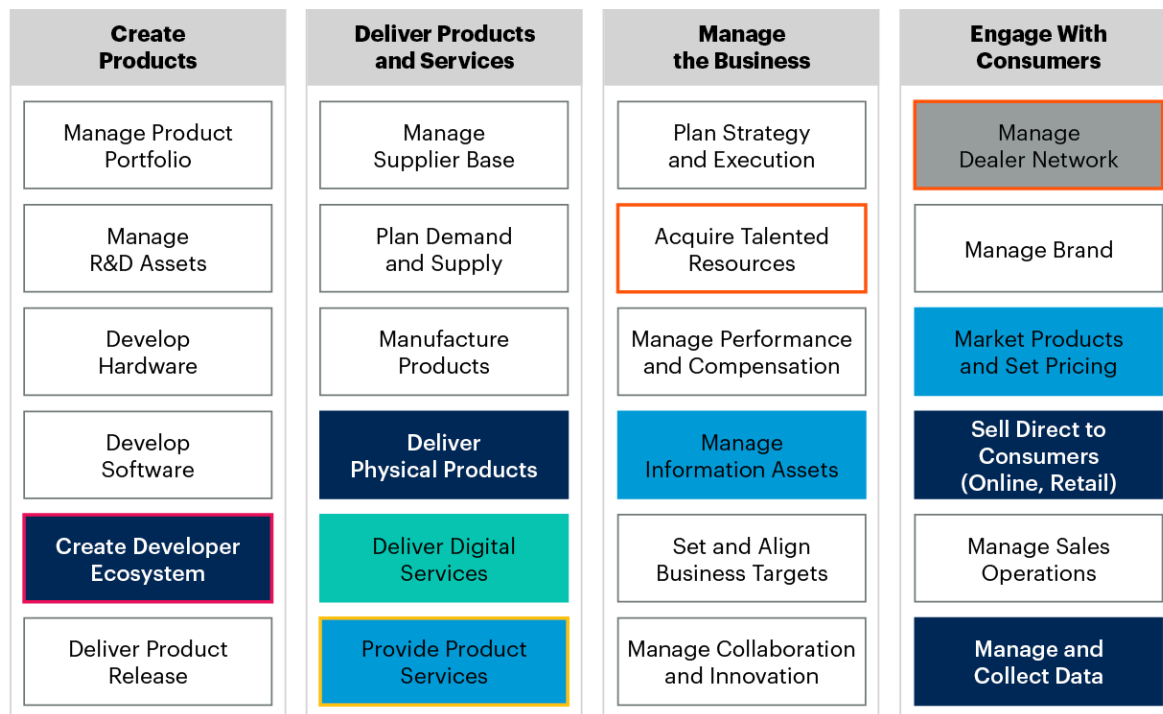
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Identify and highlight potential risk to the organization by using different frames of the boxes (see Figure 5). Identifying business capabilities to focus on (major changes or business capabilities that cause risk to the organization) will help to prioritize applications by answering, “Where do we need to focus?” In the example, “acquire talented resources” provides risk to the organization. Hence, an application must support this capability exceptionally well.

Figure 5: Highlight Risk to the Organization

**Example: Highlight Risk to the Organization**

■ New Capability   ■ Major Capability Change   ■ Minor Capability Change   ■ Obsolete Capability  
 ■ Build Internally   ■ Leverage Ecosystem   ■ Risk



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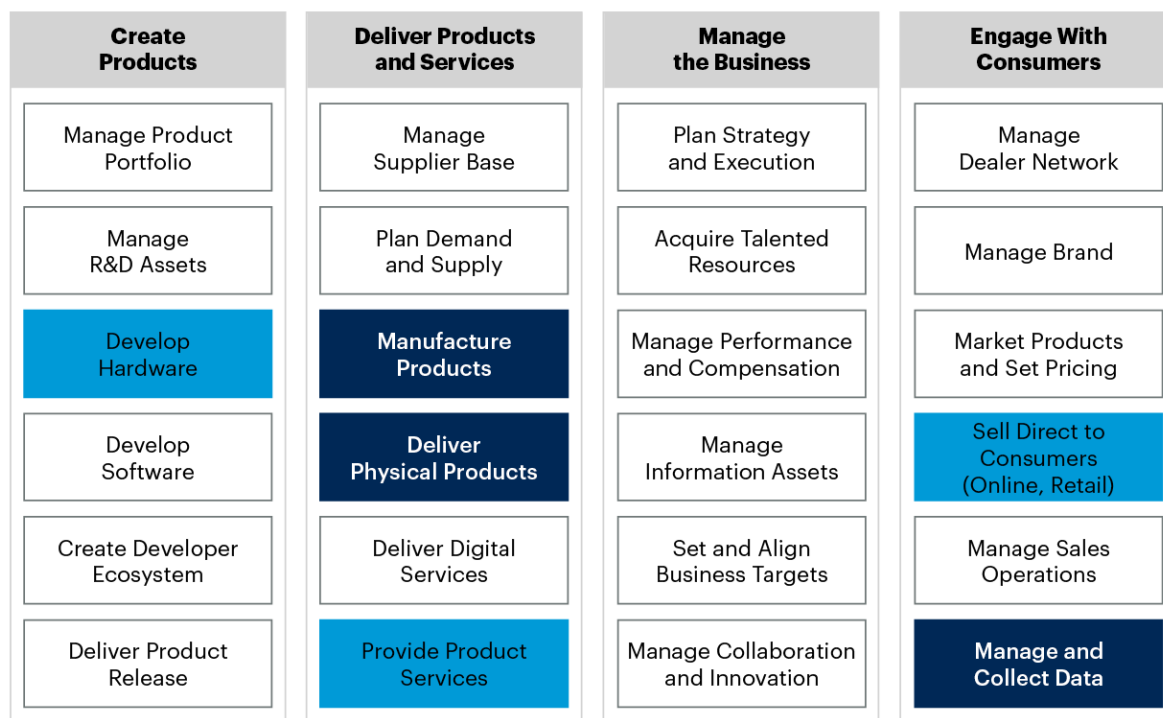
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The business capability model can also be used to identify which business capabilities provide competitive advantage to the enterprise (see Figure 6). Again, business capabilities that contribute to the competitive advantage of the organization must support underlying applications or technology. That, in-turn, supports value streams and business processes.

Figure 6: Identify Competitive Advantage

### Example: Identify Competitive Advantage

■ High Competitive Advantage ■ Medium Competitive Advantage



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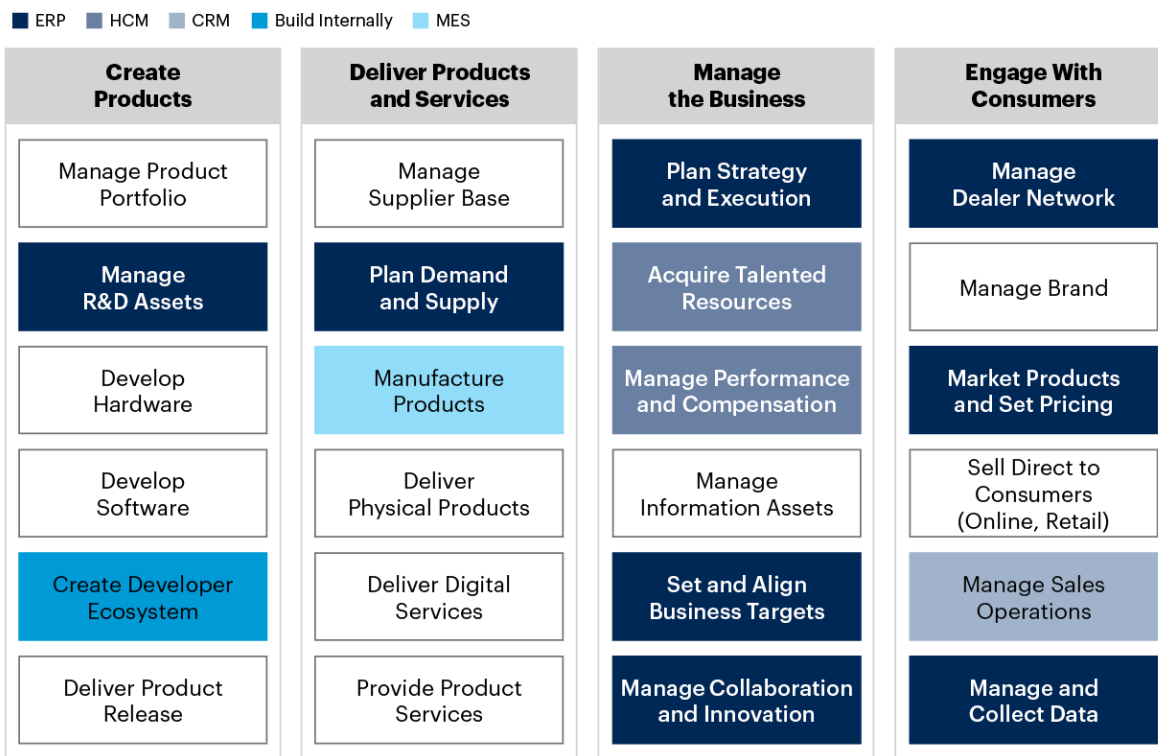
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By combining and leveraging the different areas of business capabilities focus, MSE CIOs can understand, prioritize and pinpoint which applications they must help the organization to focus on. It is important to note that business capability modeling, in conjunction with heat mapping as a technique, can be used in major application initiative decisions such as ERP, CRM and HCM.

Besides using business capability modeling in conjunction with heat mapping to prioritize the application strategy and investment decisions, business capability models can be used to assess fit-for-purpose and readiness of assets in the existing or current application portfolio. Use the business capability model to build different scenarios showing which application can support what capability and to what degree (see Figure 7).

**Figure 7: Identify Applications That Support the Business Capabilities**

## Example: Identify Applications That Support the Business Capabilities



Source: Gartner  
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As an example using ERP (this is true for any major application), different ERP solutions may support different types of business capabilities. A niche ERP may be more specialized and support very specific business capabilities, while a general-purpose ERP may be a bit broader, but less specific. By assigning different colors to each business capability according to the applications that are – or will be – used, MSEs get a clear understanding as to what applications they will need going forward.

By understanding the different applications that are necessary to support the business capabilities, integration requirements will be apparent and can be derived from that model.

## Avoid These Five Business Capability Pitfalls

1. **Lack of business involvement:** This leads to technical solutions and technical capabilities that do not align to business direction and strategy.
2. **Overcomplicating the level of effort:** Unnecessary complexity loses sight of the original goal of the exercise — close the strategy to application investment gap. This can derail the purpose of application portfolio management.
3. **Confusing business capabilities, business outcomes, processes and tasks:** MSE CIOs should review and critique the very first results. Doing so as early as possible will prevent a lot of team frustration.
4. **Excessive focus on current business capabilities rather than future-state business capabilities:** Future capabilities are often overlooked in the process of constructing the business capability model. MSE CIOs must identify future business outcomes and business models, and construct the business capability model accordingly.
5. **Confusing strategy with execution:** Business capabilities drive business outcomes. Applications enable business processes that, in-turn, drive the operating model. MSEs who are overly focused on business processes often do not see the difference between business capabilities and business processes.

Figure 8 shows the actions CIOs can take to avoid these pitfalls.

**Figure 8: Business Capabilities Do's for MSE CIOs****Business Capabilities Do's for MSE CIOs**

Source: Gartner  
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## Evidence

<sup>1</sup> 2023 Gartner CIO and Technology Executive Survey. This survey was conducted to help CIOs and technology executives overcome digital execution gaps by empowering and enabling an ecosystem of internal and external digital technology producers. It was conducted online from 2 May through 25 June 2022 among Gartner Executive Programs members and other CIOs. Qualified respondents are each the most senior IT leader (e.g., CIO) for their overall organization or some part of their organization (for example, a business unit or region). The total sample is 2,203 respondents, with representation from all geographies and industry sectors (public and private), including 358 from midsize enterprises. *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 2 – Use Business Capability Modeling to Create the Right Application Portfolio - 13 April 2021

## Recommended by the Authors

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

[8 Best Practices for Creating High-Impact Business Capability Models](#)

[Use Value Streams to Design Service and Operating Models and Enable Application Composability](#)

[Ignition Guide to Creating a Business Capability Model](#)

[The Architect's Business Capabilities Handbook](#)

[Toolkit: Workshop for Constructing an Initial Business Capability Model](#)

[Tool: Building a World Class Business Capability](#)

[Toolkit: Business Outcome Statements Deliver Value to Your Business and Guidance for EA](#)

[Tool: Business Capabilities Model for ERP](#)

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