Show Me the Money: Sources of Benefits in Business Capabilities

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In *Getting Beyond Ourselves* I asserted that business capabilities are the highest unit of value production within an organization, and that we can (and must) quantify their value. The ability to calculate the value of a business capability enables us to manage the capability as an asset, increasing its benefits relative to its costs over time. Unfortunately, this is easier said than done. Companies often find it difficult to quantify the value of capabilities because they fail to connect the people, processes, and assets associated with a capability to quantifiable types of benefits. Since value is benefits minus costs, architects' inability or unwillingness to quantify benefits impedes their ability to make decisions based on value.

The Business Architecture Body of Knowledge distinguishes three types of capabilities: strategic, core, and supporting, where strategic capabilities represent management focal points, core capabilities represent capabilities used by customers, and supporting capabilities represent things that generate value to a company, but not directly to customers. We will focus on customer-facing capabilities during this article, but the assertion that capabilities generate quantifiable value is equally valid for strategic and supporting capabilities.

Three Sources of Benefits

There are at least three major categories of benefits that can be attributed to a business capability, including:

- Customer Value,
- Market Value, and
- Efficiency / Performance.

It Starts with the Customer

Customer value represents the ways that a business capability supports a value proposition that is compelling enough to entice customers to be willing to pay for a product or service that delivers the value proposition, and/or increases the frequency with which customers use the product or service.

We can measure the impact of a capability on customer value through one or more of the following metrics.

1. Share of wallet for existing customers – map the usage of a capability to changes in share of wallet by customer

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2. Growth in customer base – compare the usage of a capability to changes in the rate of customer acquisition
3. Usage frequency – assess the frequency of use of a capability relative to revenue generating events, such as conversion rate
4. Lifetime value – correlate the usage of a capability to changes in customer lifetime value

Example: mobile workflow approval

A B2B retailer introduced a mobile order approval capability to meet the needs of maintenance managers who were rarely at their desks when they needed to approve purchases for maintenance parts and supplies. The mobile workflow approval enabled the retailer to significantly increase share of wallet for customers who needed to demonstrate management approval for maintenance supply purchases. The workflow approval capability was so popular that product sales through the mobile app enabled it to achieve a #76 ranking on the Mobile Retailer 400 within 12 months of launch.

Markets May Vary

Beyond individual customers, a capability can create value by increasing the relevance of a value proposition to a target market. The presence or absence of certain capabilities may make or break a company's ability to compete in a particular market or market segment. Market level measures are similar to customer measures, but at a higher level of abstraction. Sometimes market level requirements are driven by changes in regulations, either within a country or region of the world.

Typical metrics for measuring the contribution of a capability to market value include:

1. Share of total addressable market – map the usage of a capability to changes in the market share for the value proposition(s) it supports
2. Growth in customers within market / market segment – mapping usage of a capability to changes in the number of customers within a market / segment

Example: General Data Privacy Regulation (GDPR)

In response to concerns about protection of personal data for citizens of the European Union, the GDPR was implemented in May 2018. It established a comprehensive approach to personal data protection. The law created a need for new or enhanced capabilities to ensure data privacy for EU citizens as they interacted with companies who conduct business in Europe. The value of these capabilities was measurable by both retained business as well as growth in the market by providing GDPR-compliant solutions ahead of competitors.

Time is Money

The next source of value that can be measured for a business capability is efficiency and performance. The business processes, assets, and people associated with a capability generate one time and ongoing costs that together comprise its total cost of ownership. Investments to reduce the cost per unit of work or improve performance of the increase its value.

Efficiency and performance can be measured with:

1. Cost per transaction – summarize the annual costs for a capability and divide by the number of transactions.
2. Cycle / response time per transaction – summarize the cycle time to complete a transaction and divide by the total number of transactions

Example: Chat vs. Voice

A B2C website implemented a chat service to reduce the burden on its call center. As it piloted the chat service, the management team discovered that a chat agent could handle two chats concurrently when a call center agent could handle only one voice call at a time, reducing customer wait times. The chat service also allowed the company to leverage lower cost offshore resources, reducing the cost per customer served by 60% relative to an onshore call center agent. A more efficient approach to responding to customers simultaneously improved the service experience and its cost structure.

Closing Thoughts

A general approach to quantifying the value of capabilities is to identify customers and value propositions, map the value

propositions to the capabilities required to deliver value, and calculate benefits, usage, and costs. Additional guidance on the calculations of benefits, usage, and cost models as applied to a software application were described in my 2019 A&G Magazine article, ***Assessing the Value of Software Applications with Business Capability Models***.

Another consideration is that the models should focus on being directional, not precise. The goal is to use the models to make strategic decisions, not to use them as a detailed accounting exercise. As the famous statistician John Tukey once said, "Better an approximate answer to the right question than an exact answer to the wrong question."

The most difficult part of the exercise is gaining leadership alignment on the customers and value propositions. Given agreement on the value propositions, a team can leverage the company's measurements of revenue associated with the value propositions to drive subsequent analysis steps.

Quantifying the benefits of capabilities enhances an architect's credibility when making investment decisions about business capabilities. Economic benefits enable a leadership team to translate investments in capability into the incremental economic value that must be generated to return the costs plus a hurdle rate, enabling decision-makers to understand payback and risk associated with an investment.

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