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APPLICATION PLATFORMS AND BUSINESS STRATEGY

MAKING THE CONNECTION



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Every organization has goals it's trying to reach. A business might wish to improve its profit margins by focusing on a specific set of customers, for example, while a government agency might need to find a way to accomplish its mission with a smaller budget. To reach these goals, the people who run an organization choose specific strategies to pursue.

In virtually every case today, carrying out these strategies depends on software. Making a strategic change might require buying a new software package or modifying an existing custom application or even building an entirely new one. These applications, in turn, depend on the application platform they run on. This platform has many parts—a development foundation, storage, development tools, and more—and so a critical part of successfully carrying out business strategies is choosing the right application platform.

The implication is clear: Every time an organization makes a business strategy decision, it is implicitly relying on the ability of its application platform to support that strategy. This is a fundamentally important fact, but the connection between these two things gets less attention than it deserves. The goal of this article is to make this link clear, first in an abstract way, then by walking through a concrete example.

Connecting the Dots: From Business Strategy to Application Platform

Being clear about the connection between business strategy and application platforms requires thinking clearly about what business strategy really is. Don't confuse a strategy with a goal—they're not the same thing. For example, a CEO might assert that her company's strategy is to be the high-volume, low-cost supplier in its market, or to provide best-in-class service to high-net-worth individuals, or to be first or second in market share across all of the company's businesses. Yet none of these is a strategy—they're goals. A goal just states a destination, while a strategy defines exactly what actions an organization will take to reach this destination¹. Figure 1 illustrates this idea.

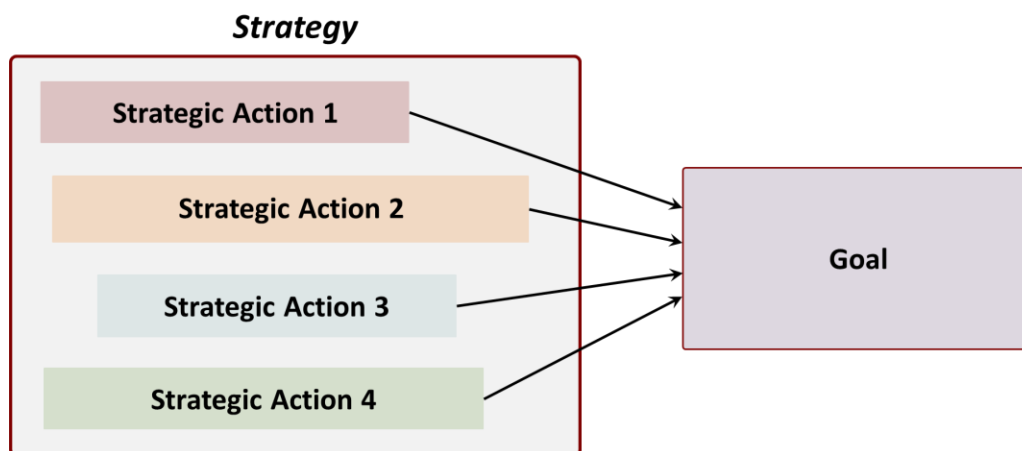


Figure 1: A strategy defines a set of actions for achieving a goal.

¹ For a first-rate discussion of this idea, see Richard Rumelt's book *Good Strategy Bad Strategy: The Difference and Why It Matters*.

As the figure shows, a strategy includes a specific set of actions that lays out how to achieve a goal. For business strategies, these actions typically describe how an organization will change—what it will do differently—to reach the desired goal.

Yet how are these changes actually implemented? Most often, the strategic actions an organization pursues are expressed as changes in that organization’s business processes. These processes are the essence of what a business does, and so implementing a new business strategy means changing them. Figure 2 summarizes the possible changes.

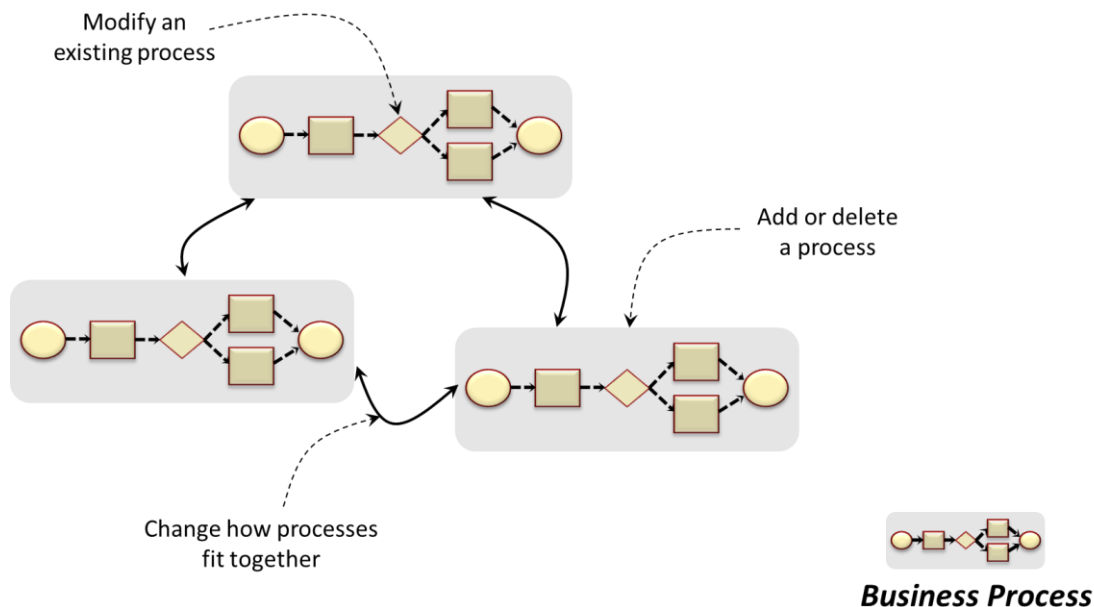


Figure 2: **Implementing a business strategy means changing an organization’s business processes.**

The process changes required by a strategy are made concrete in three ways:

- Modifying an existing business process.
- Adding a new business process or getting rid of an existing one.
- Changing how business processes interact with one another.

In every modern organization, business processes are supported by applications that help carry out these processes more efficiently and with fewer errors. Sales organizations rely on customer relationship management (CRM) software, for example, while enterprise resource planning (ERP) applications underlie financial processes. And for true differentiation—the differences that bring competitive advantage—organizations commonly rely on business processes supported by custom applications. Whatever they do, all of these applications depend on some kind of application platform. Figure 3 shows the relationships.

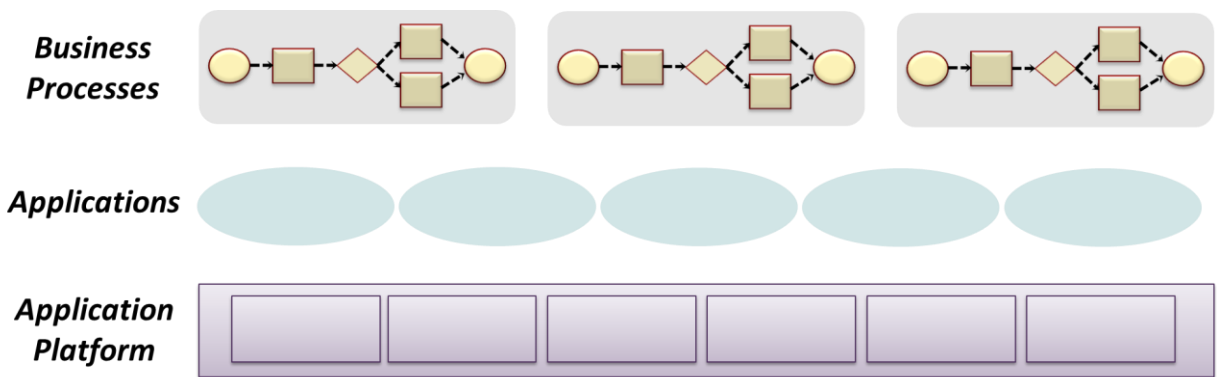


Figure 3: Business processes depend on applications, which themselves depend on an application platform.

The connections are evident. Implementing a business strategy means changing an organization’s business processes. Changing business processes means changing the applications that support those processes. These changes are only possible if the application platform makes them possible, i.e., if it has the capabilities required to support the changes. The link between an organization’s business strategy and its application platform is direct and real.

An Example: A Rental Car Company Reinventing Itself

The clearest way to understand the connection between business strategies and application platforms is to walk through an example. Think, for instance, about a (fictitious) rental car company that decides to reinvent itself. This company’s executives have noticed that while travelers can choose from a myriad of boutique hotels and specialized airlines, all rental car companies are pretty much the same. With this in mind, they have chosen to create a boutique rental car firm that clearly stands out from its competitors. Their goal is to *attract a loyal customer base willing to pay a premium to rent from a firm recognized as the desirable choice for style-conscious consumers.*

Achieving this business goal requires a strategy laying out exactly how the organization will get there. Figure 4 shows the key strategic actions this firm’s executives have chosen.

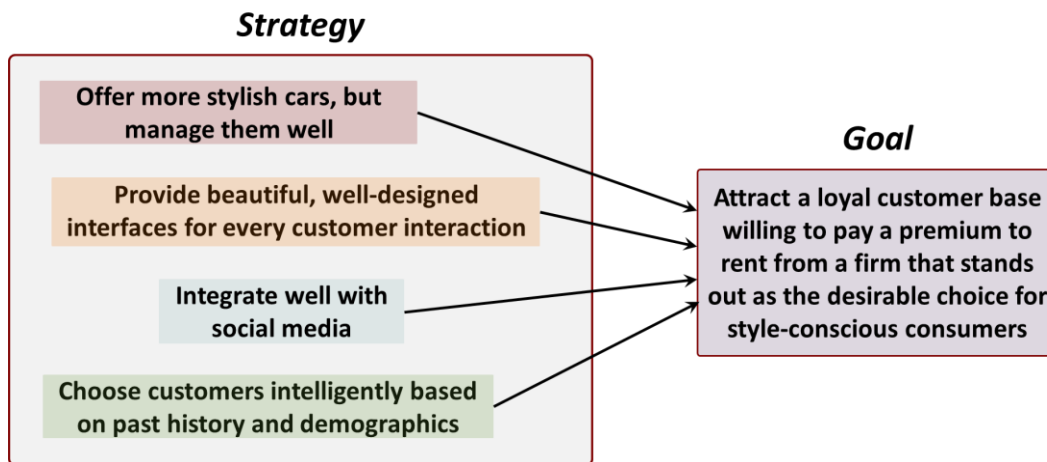


Figure 4: A rental car company trying to reinvent itself might adopt the goal and strategy described here.

To reach its goal, the business plans to make four major changes:

- Rather than providing the traditional (boring) choices, the firm needs to *offer more stylish cars, but manage them well*. Since stylish cars typically cost more than the alternatives, managing this new fleet effectively is critical to keeping profit margins up.
- The firm will *provide beautiful, well-designed interfaces for every customer interaction*. They'll offer a first-class user experience through every client: a desktop browser, a tablet, a phone, or anything else. Among other things, these interfaces will let a customer call up dramatic video clips showing the cars on offer, giving a better sense of what those cars look like and perhaps even enticing the customer into a higher-priced upgrade.
- The reinvented firm will *integrate well with social media*. Their target customer is almost certainly on Facebook, for example, and so to reach her effectively, the firm needs to be there, too. The goal is to make it easier for customers to learn about and book cars, share their experiences with those cars, and more.
- The firm will *choose customers intelligently based on their past history and demographics*. Targeting style-conscious customers means that the company is all but certain to attract a younger audience. Younger renters are riskier renters, and so the firm needs to use all of the data it can—historical customer data, purchased demographic data, and more—to make good decisions about who to rent to. Choosing its customers intelligently, and saying no when necessary, will be essential to profitability in the reinvented organization.

Every one of these changes—every aspect of this strategy—is actually implemented as a change in the firm's business processes. For this simple example, assume the company has just three processes: *Car Management* to buy and manage its cars, *Customer Reservation* to handle customer bookings, and *Rental* to rent cars to its customers. Figure 5 illustrates these processes, showing how the strategic actions just described change each one.

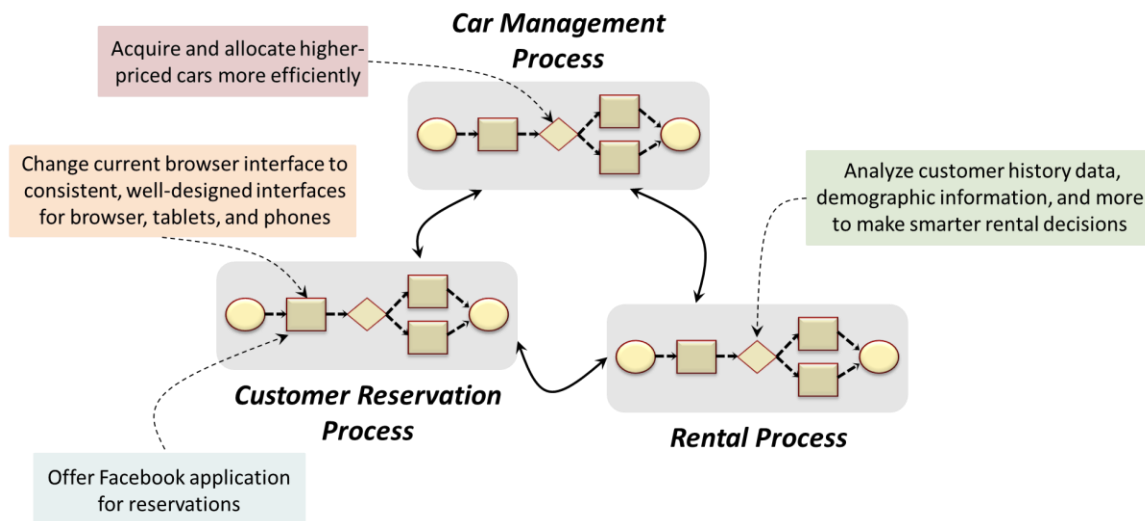


Figure 5: Executing this strategy requires specific changes to the company's business processes.

Each of the four strategic actions has a concrete impact on one of the firm's three business processes:

- To offer more stylish cars, but manage them well, the firm adds an automated workflow in the Car Management process that helps its employees *acquire and allocate higher-priced cars more efficiently*. Based on a collaboration technology, this workflow tracks the location of every available car in near-real time, then provides this information to each rental counter through a portal. The goal is to increase utilization rates for the firm's higher-priced cars, as well as improve upsell percentages where customers choose higher-priced options.
- To provide beautiful, well-designed interfaces for every customer interaction, the firm will *change its current browser interface to consistent, well-designed interfaces for browsers, tablets, and phones*. This will replace the current functional-but-ugly browser interface in the Customer Reservation process with a new Web user interface designed expressly to appeal to style-conscious renters. Just as important, the company will implement native apps for tablets and mobile phones with the same design style, providing a consistent experience across all devices.
- To integrate well with social media, the firm will *offer a Facebook application for reservations*. Customers using this application can plug directly into the firm's Customer Reservation process, letting them reserve cars and more. Because the load it must handle varies widely, this application is implemented on a public cloud platform.
- To choose customers intelligently based on past history and demographics, the firm will *analyze customer history data, demographic information, and more to make smarter rental decisions*. Accomplishing this will require implementing new business intelligence (BI) applications to better track and understand the behavior of its customers. The data warehouse on which some of these applications depend is populated from the transactional databases used by the Customer Reservation and Rental processes, and the company also buys some demographic data from third parties.

All of these strategic changes require modifying business processes and the applications that support them. Changing the applications, in turn, relies on the application platform. Figure 6 summarizes the connections.

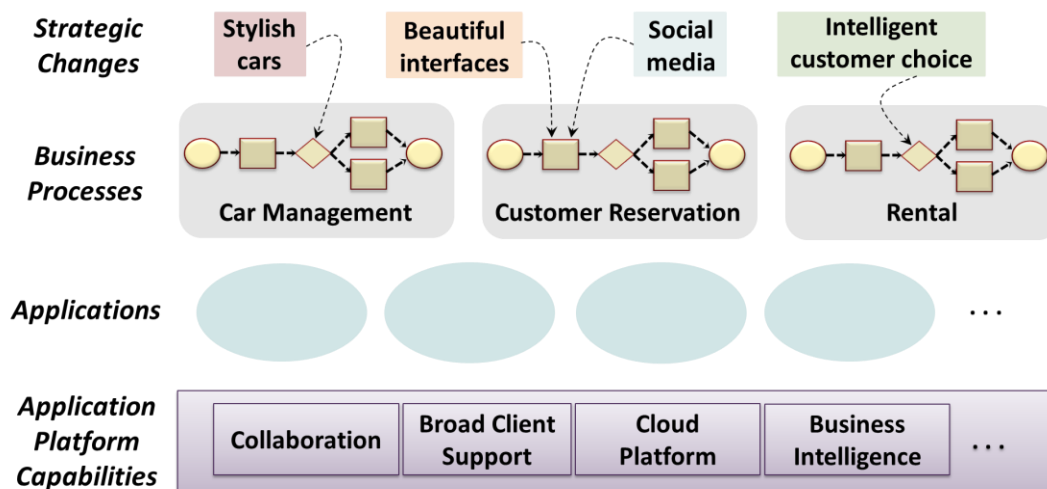


Figure 6: Strategic changes imply changes to business processes, which require changes to applications, which depend on the capabilities provided by the company’s application platform.

For this rental car company to carry out the desired strategy, its application platform must provide specific capabilities: collaboration, broad client support, a cloud platform, business intelligence technology, and more. If these aren’t available, implementing the strategy will be difficult. If the platform does provide them, however, supporting this approach to reinventing the company will be significantly simpler. In the end, a key aspect of whether the vision of the firm’s leaders can be successful comes down to the application platform it has in place.

Conclusion

The connection is inescapable: There’s a direct line from an organization’s business strategy to its application platform. In fact, it’s not a stretch to say that the real purpose of an application platform is to support business strategies.

Because of this, choosing a platform that can support an organization’s strategies well—today and tomorrow—is fundamental to success. While it isn’t always apparent, the truth is that there’s no more important IT decision.

About the Author

David Chappell is Principal of Chappell & Associates (www.davidchappell.com) in San Francisco, California. Through his speaking, writing, and consulting, he helps people around the world understand, use, and make better decisions about new technologies.