



IBM FORUM 06

Results through Innovation



**Unlocking the value creators
within your organisation**

with Component Business Modeling

what makes you *
special?



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what makes you *
special?

The Other IBM – IBM Global Business Services

**It's a different kind of world.
You need a different kind of IBM.**

- **IBM Global Business Services combines an extraordinary level of experience, intellectual capital and operational expertise to:**
 - Solve business problems; and
 - Transform critical business processes
- **IBM Global Business Services is deeper in :**
 - strategy and change management
 - practical understanding of customer service issues
 - supply chain and financial management
 - HR
- **IBM has global experience in 17 industries as diverse as government, retail, and media and entertainment**





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What is Component Business Modelling (CBM) and why is it an important framework for your business?

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Today's Reality

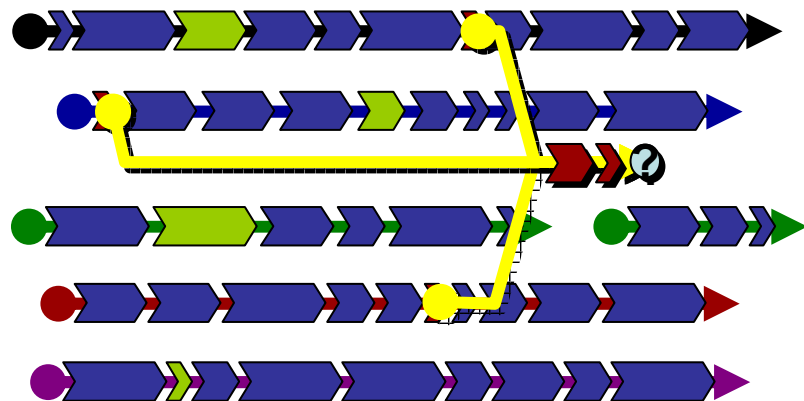
“luxury of assuming that business models were more or less immortal. Companies always had to work to get better... but they seldom had to get different - not at their core.”

*Gary Hamel and Liisa Valikangas,
‘The Quest for Resilience’*

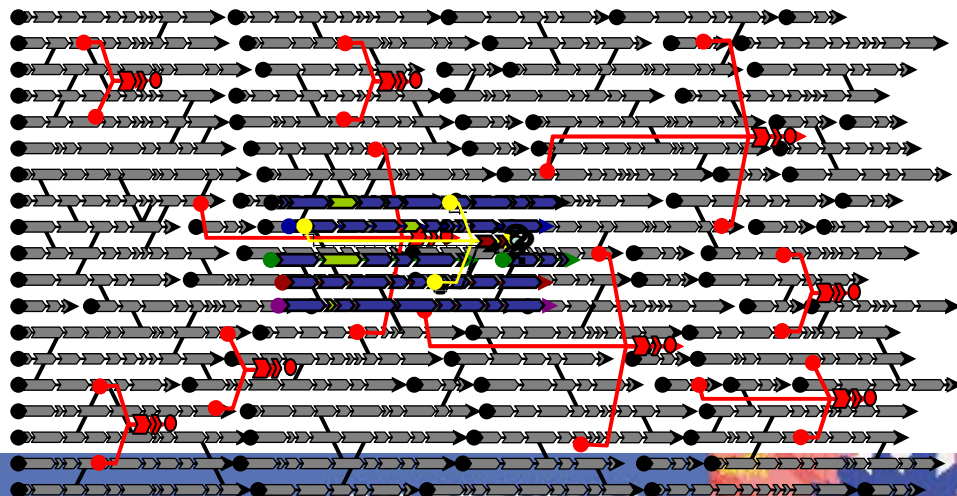
Harvard Business Review



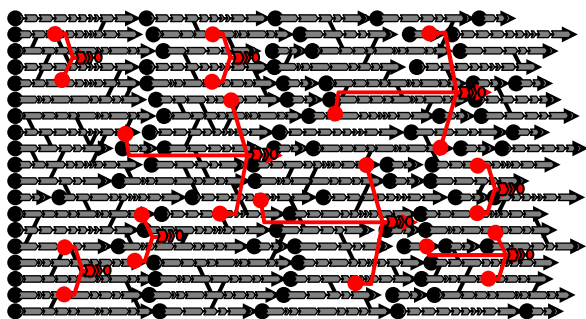
The process perspective can improve how a business operates but it doesn't force the generalisation of common tasks nor help rationalise shared activities.



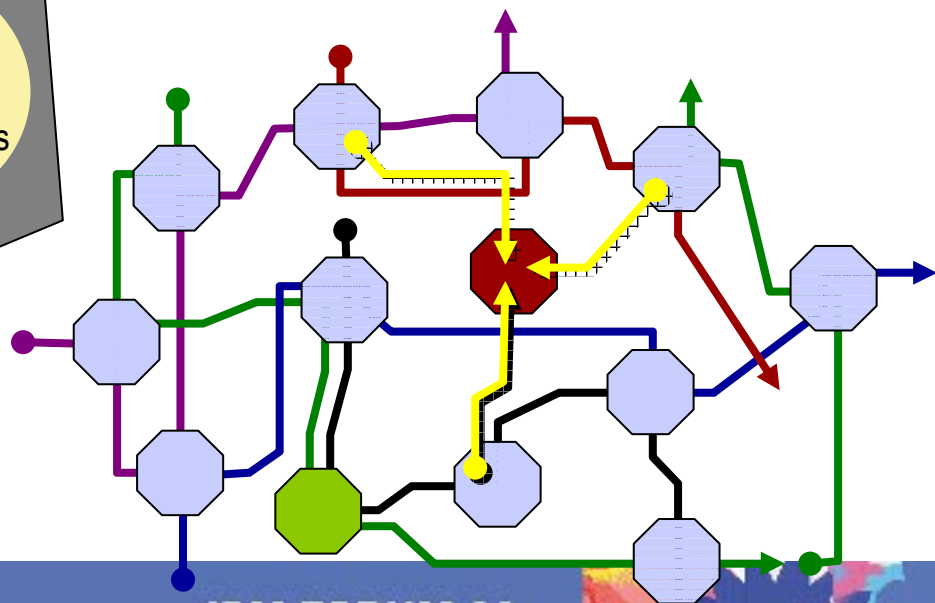
A process task is treated as a stand alone entity, re-engineered for improvement, and implemented without being fully integrated across the entire enterprise.



However, CBM seeks to identify the collection of specialisation capabilities that can be combined as a network to support the full array of processes.



150-300
significant processes
supported by 50-80
specialist components



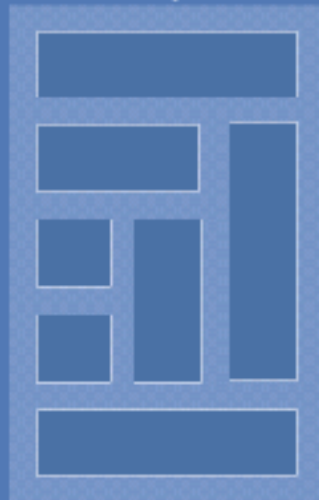
The evolution of business structure

Now, leading companies are adopting a more componentized approach to their businesses, realizing substantial changes in the effectiveness, efficiency and flexibility of their organizations, driving sustainable growth

1980s



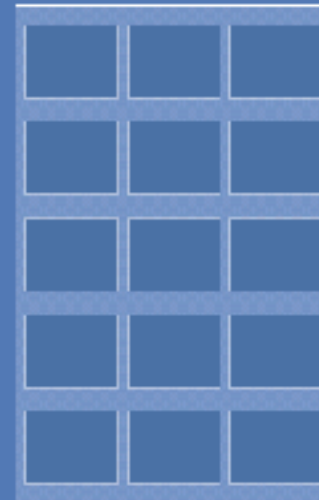
Late 1990s - early 2000s



Today



Tomorrow: On Demand Business



A Business Component Map is a tabular view of your business components in the scope of interest

A **Business Component** is a part of an enterprise that has the potential to operate independently, in the extreme as a separate company, or as part of another company.

Columns are Business Competencies, defined as large business areas with characteristic skills and capabilities, for example, product development or supply chain.

An **Accountability Level** characterises the scope and intent of activity and decision-making. The three levels used in CBM are Directing, Controlling and Executing.

- Directing is about strategy, overall direction and policy.
- Controlling is about monitoring, managing exceptions and tactical decision making
- Executing is about doing the work

	Business Administration	New Business Development	Relationship Management	Servicing & Sales	Product Fulfilment	Financial Control and Accounting
Directing	Business Planning	Sector Planning	Account Planning	Sales Planning	Fulfilment Planning	Portfolio Planning
Controlling	Business Unit Tracking	Sector Management	Relationship Management	Sales Management	Fulfilment Planning	Compliance
	Staff Appraisals	Product Management	Credit Assessment			Reconciliation
Executing	Staff Administration	Product Directory	Credit Administration	Sales	Product Fulfilment	Customer Accounts
	Production Administration	Marketing Campaigns		Customer Dialogue	Document Management	General Ledger
				Contact Routing		



The business component

1

A business component is a part of an enterprise that has the potential to operate independently, in the extreme case as a separate company, or as part of another company



Component Business Modeling (CBM) is a powerful new tool

Enabling you to address a range of business and technology issues

- **Distinguish between differentiating and operating components and where to invest**
- **Business components provide the capability to easily view the enterprise through a number of different “lenses,” simply by changing the criteria by which components are evaluated**
 - e.g. financial, strategic fit, organizational, technical
- **This componentized view of your business is an evolution of traditional views (business unit, function, geography, process)**
- **allows you to have transformation discussions in a non-solid, agnostic manner**



What are some examples of how CBM can be applied to your situations?

- **Strategic issues**
 - Aligning business capabilities to the overall strategy and identifying differentiating requirements
 - Ensuring investments are aligned with the strategy
- **Sourcing issues**
 - Identifying non-differentiated parts of the business that are better served with shared services or alternate sourcing / partnering arrangements
- **Technology issues**
 - Creating an underlying technology architecture that leverages the existing investments and builds incremental capabilities to support increased flexibility and responsiveness and a componentised approach
- **Mergers & Acquisitions**
 - Enabling a comprehensive, non-political and non-siloed view of the organisational capabilities and creating a single roadmap for integration
- **Prioritising transformation initiatives**
 - Creating integrated business and technology transformation roadmaps that are aligned with the overall strategy





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Case Studies

... how can you use CBM

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special?

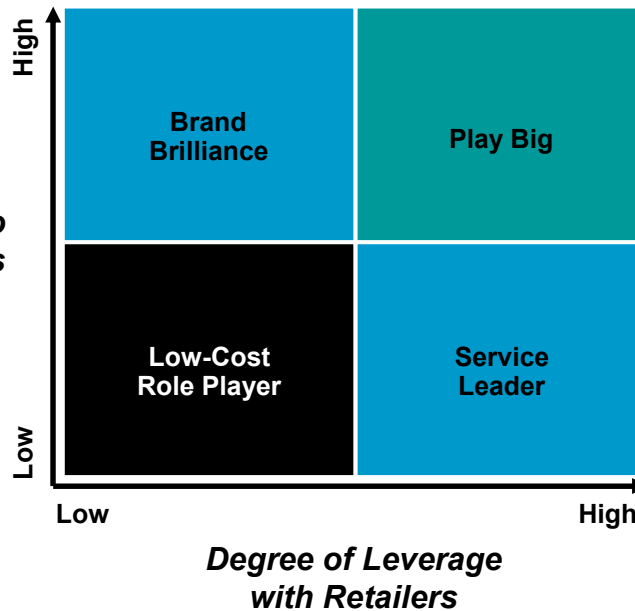
Case study 1: One way to clarify your differentiating capabilities is to evaluate positioning vis-à-vis customers and consumers

Strategic Positioning Framework

Measurement

- Importance in their lives
- Perceived difference
- Price premium
- Market share
- Loyalty

Importance to Consumers

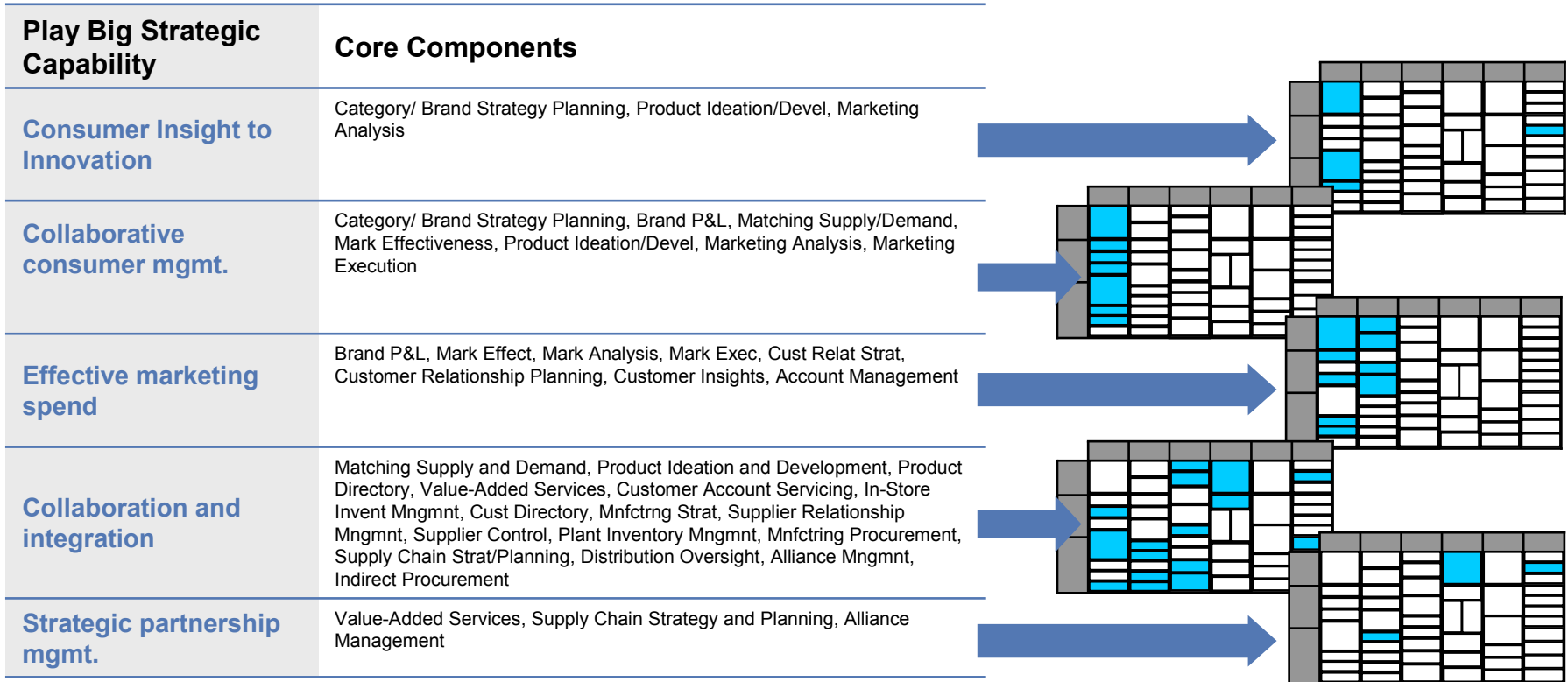


Measurement

- Resistance to price decline
- Resistance to store promotion
- Retailer profit
- Manufacturer profit



Each of a company's Play Big priority capabilities are mapped to identify the key components



CBM will help to identify differentiating components for the Consumer Products industry

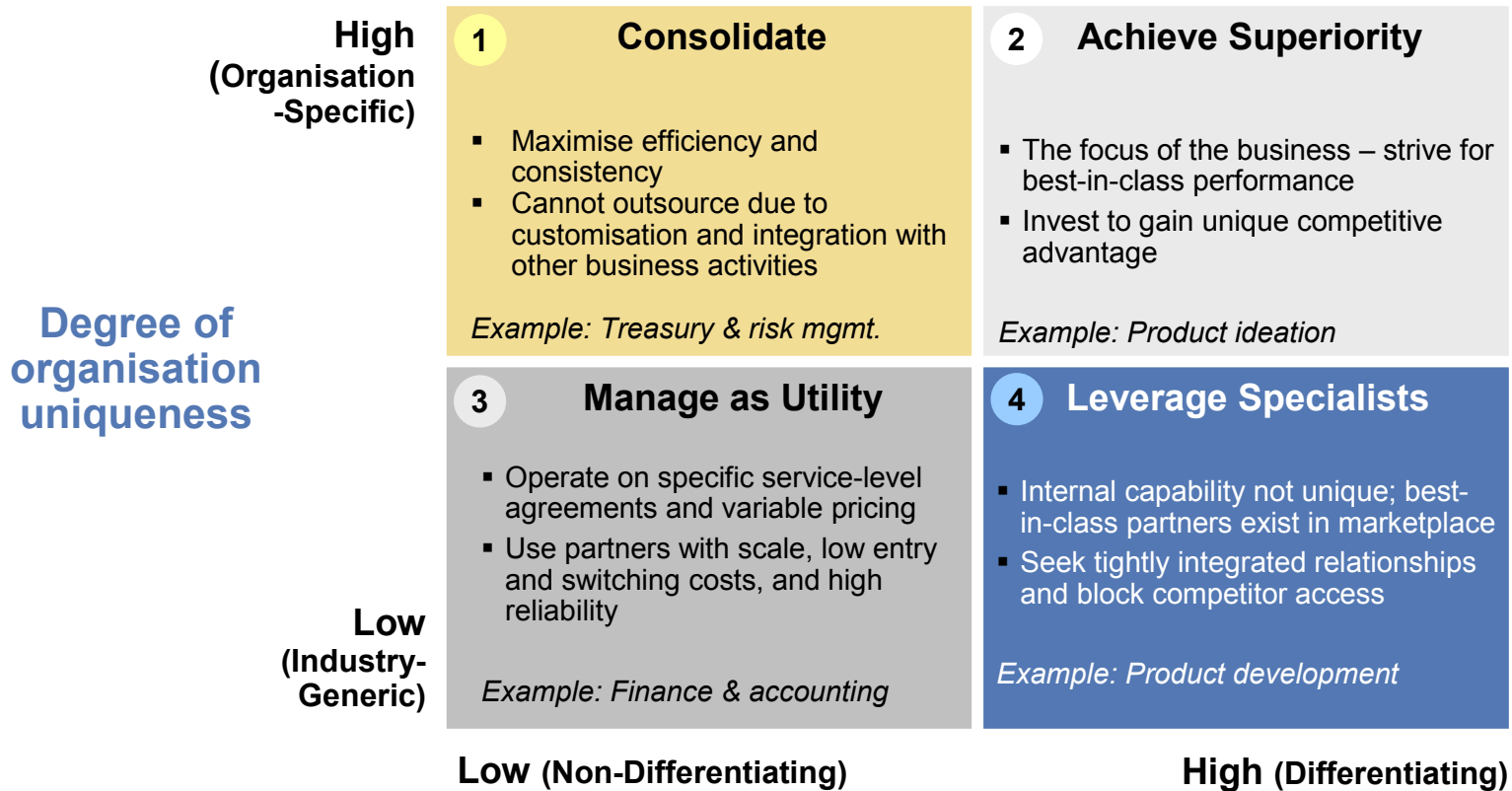
	Consumer Relationship	Customer Relationship	Manufacturing	Supply Chain & Distribution	Business Administration
Planning and Analysis	Category/Brand Strategy	Customer Relationship Strategy	Manufacturing Strategy	Supply Chain Strategy	Corporate Strategy
	Category/Brand Planning	Customer Relationship Planning	Supplier Relationship Management	Supply Chain Planning	Corporate Planning
Monitoring and Controls	Brand P&L Management	Assessing Customer Satisfaction	Production and Materials Planning	Distribution Oversight	Business Performance Management
	Matching Supply and Demand	Customer Insights			Manufacturing Oversight
	Marketing Development and Effectiveness	Account Management	Supplier Control	In-bound Logistics / Out-bound Logistics	Organization and Process Design
	Product Ideation		Make Products		Treasury and Risk Management
Execution	Concept/Product Testing	Value-Added Services	Assemble/Pkg. Products	Distribution Center Operations	Accounting and GL
	Product Development	Customer Account Servicing	Plant Inventory Management		Transportation Resources
	Product Management	Retail Marketing Execution	Manufacturing Procurement	En route Inventory Management	Facilities and Equipment Management
	Marketing Execution	In-store Inventory Mgmt			HR Administration
	Consumer Service	Customer Directory			IT Systems and Operations
	Product Directory				

Differentiating

Non-Differentiating



Components are assessed and segmented to determine their positioning in the operating model



The resulting CBM Map incorporates attributes and can be used to identify the role of the organisation

	<i>Consumer Relationship</i>	Operational	<i>Customer Relationship</i>	Operational	<i>Manufacturing</i>	Operational	<i>Supply Chain & Distribution</i>	Operational	<i>Business Administration</i>	Operational
Planning and Analysis	Category/Brand Strategy	2	Customer Relationship Strategy	2	Manufacturing Strategy	2	Supply Chain Strategy	2	Corporate Strategy	2
	Category/Brand Planning	2	Customer Relationship Planning	2	Supplier Relationship Management	2	Supply Chain Planning	2	Corporate Planning	2
					Production and Materials Planning	2			Alliance Management	2
Monitoring and Controls	Brand P&L Management	1	Assessing Customer Satisfaction	3	Manufacturing Oversight	1	Distribution Oversight	1	Business Performance Management	1
	Matching Supply & Demand	4	Customer Insights	2	Supplier Control	1	In-Bound Logistics	3	External Market Analysis	1
	Marketing Dev and Effectiveness	4	Account Management	4			Out-Bound Logistics	3	Organization and Process Design	1
	Product Ideation	2							Legal and Regulatory Compliance	1
Execution	Concept/Product Testing	3	Value-Added Services	4	Make Products	3	Distribution Center Operations	3	Treasury and Risk Management	1
	Product Development	4	Customer Account Servicing	3	Assemble/Package Products	3	Transportation Resources	3	Accounting and GL	3
	Product Management	1	Retail Marketing Execution	3	Plant Inventory Management	3	En route Inventory Management	3	Indirect Procurement	3
	Marketing Execution	1	In-Store Inventory Management	3	Manufacturing Procurement	3			Facilities and Equipment Management	3
	Consumer Service	3	Customer Directory	3					HR Administration	3
	Product Directory	3							IT Systems and Operations	3

Differentiation Key		Operational Key	
Differentiated		Consolidate	1
Non-Differentiated		Achieve Superiority	2
		Manage as Utility	3
		Leverage Specialists	4



Create a “Heat map” by defining and considering the financial drivers

*Example:
Consumer
Packaged Goods*

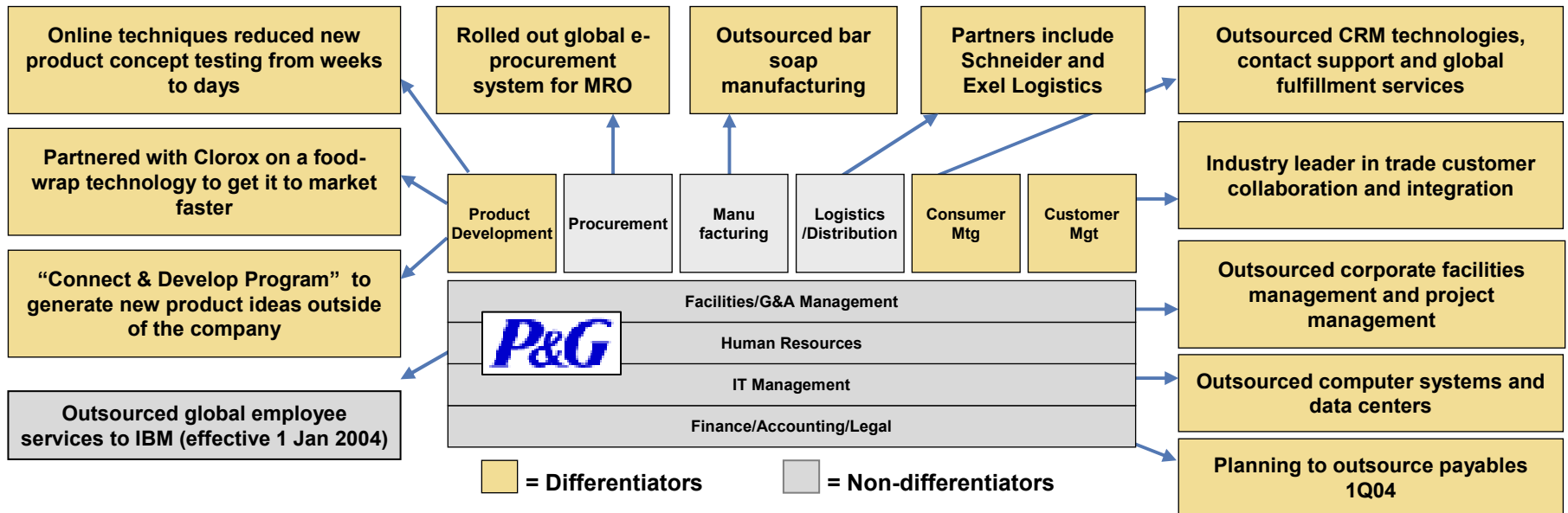
Financial View

- High Capital Area
- High Cost Area
- High Cost & Capital Area

	Consumer Relationship	Customer Relationship	Manufacturing	Supply Chain & Distribution	Business Administration
Strategy	Category/Brand Strategy	Customer Relationship Strategy	Manufacturing Strategy	Supply Chain Strategy	Corporate Strategy
	Category/Brand Planning	Customer Relationship Planning	Supplier Relationship Management	Supply Chain Planning	Corporate Planning
Tactics	Brand P&L Management	Assessing Customer Satisfaction	Production and Materials Planning	Distribution Oversight	
	Matching Supply and Demand	Customer Insights	Manufacturing Oversight	In-bound Logistics	Out-bound Logistics
	Marketing Development & Effectiveness	Account Management	Supplier Control		
	Product Ideation	Value-Added Services	Make Products	Distribution Center Operations	
Execution	Concept/Product Testing	Customer Account Servicing	Assemble/Pkg. Products	Transportation Resources	Treasury and Risk Management
	Product Development	Retail Marketing Execution	Plant Inventory Management		Accounting and GL
	Product Management	In-store Inventory Mgmt	Manufacturing Procurement	En route Inventory Management	Indirect Procurement
	Marketing Execution	Customer Directory			Facilities and Equipment Management
	Consumer Service				HR Administration
	Product Directory				IT Systems and Operations



Procter & Gamble is leading the traditional CPG industry in its development of a networked business model

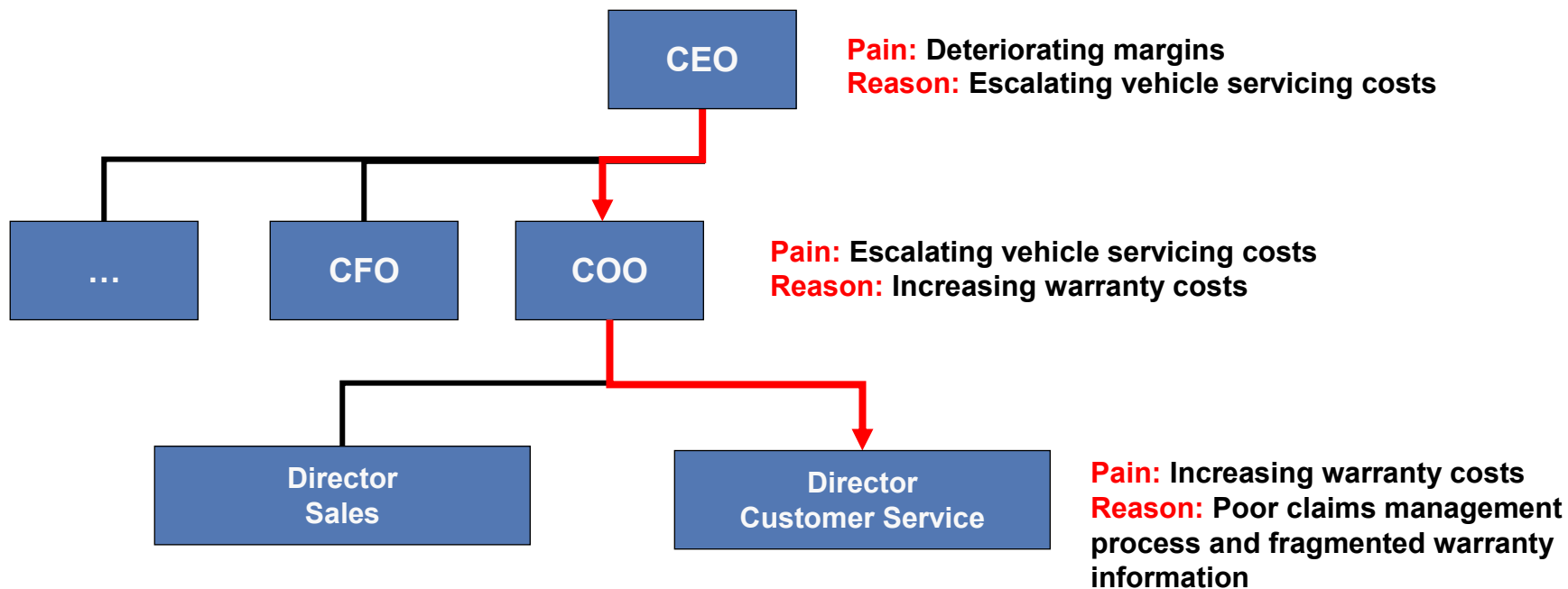


“Our core capability is to develop and commercialize. Branding is a core capability. Customer business development is a core capability. We concluded in a lot of areas that manufacturing isn’t. Therefore, I let the businesses go do more outsourcing. We concluded that running a back room wasn’t a core capability. You do what you do best and can do world class.”

— A.G. Lafley, Chairman and CEO, Procter & Gamble



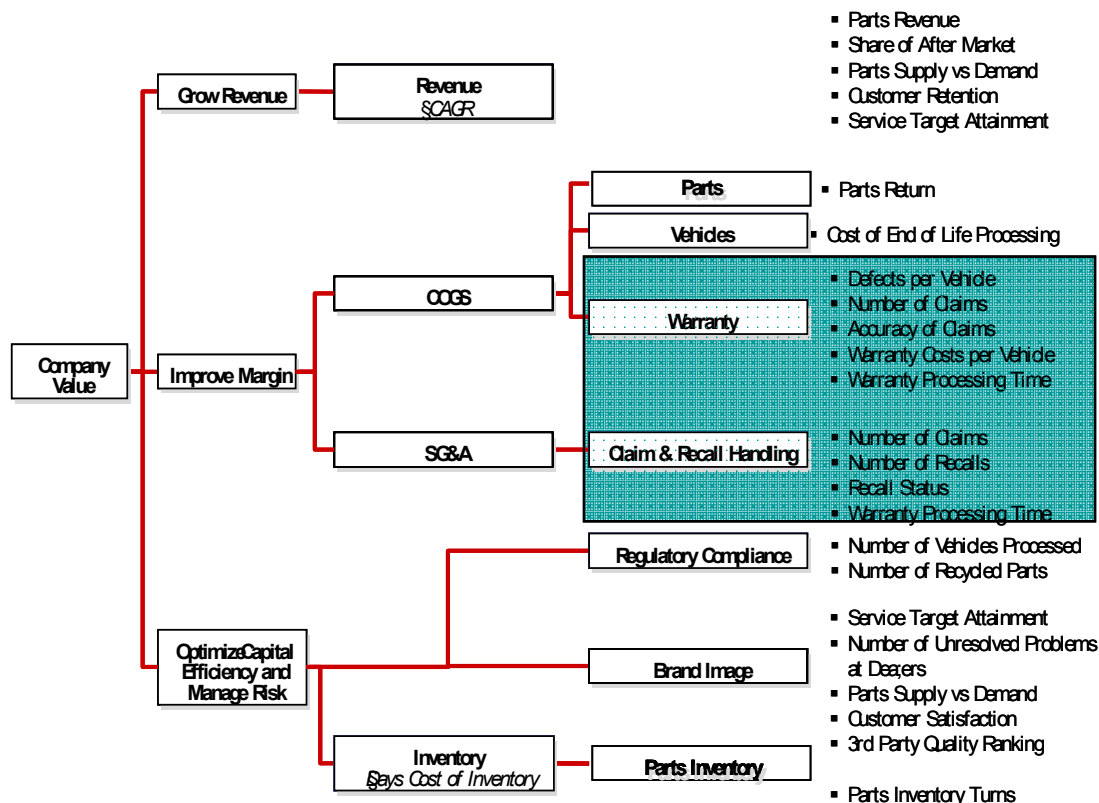
Case Study 2: In this Automotive example, Corporate-level value drivers are broken down into operational levers where transformation becomes meaningful



Using the value driver trees, we identify that Warranty and Claims Handling are KPIs that would have immediate impact on COGS and SG&A

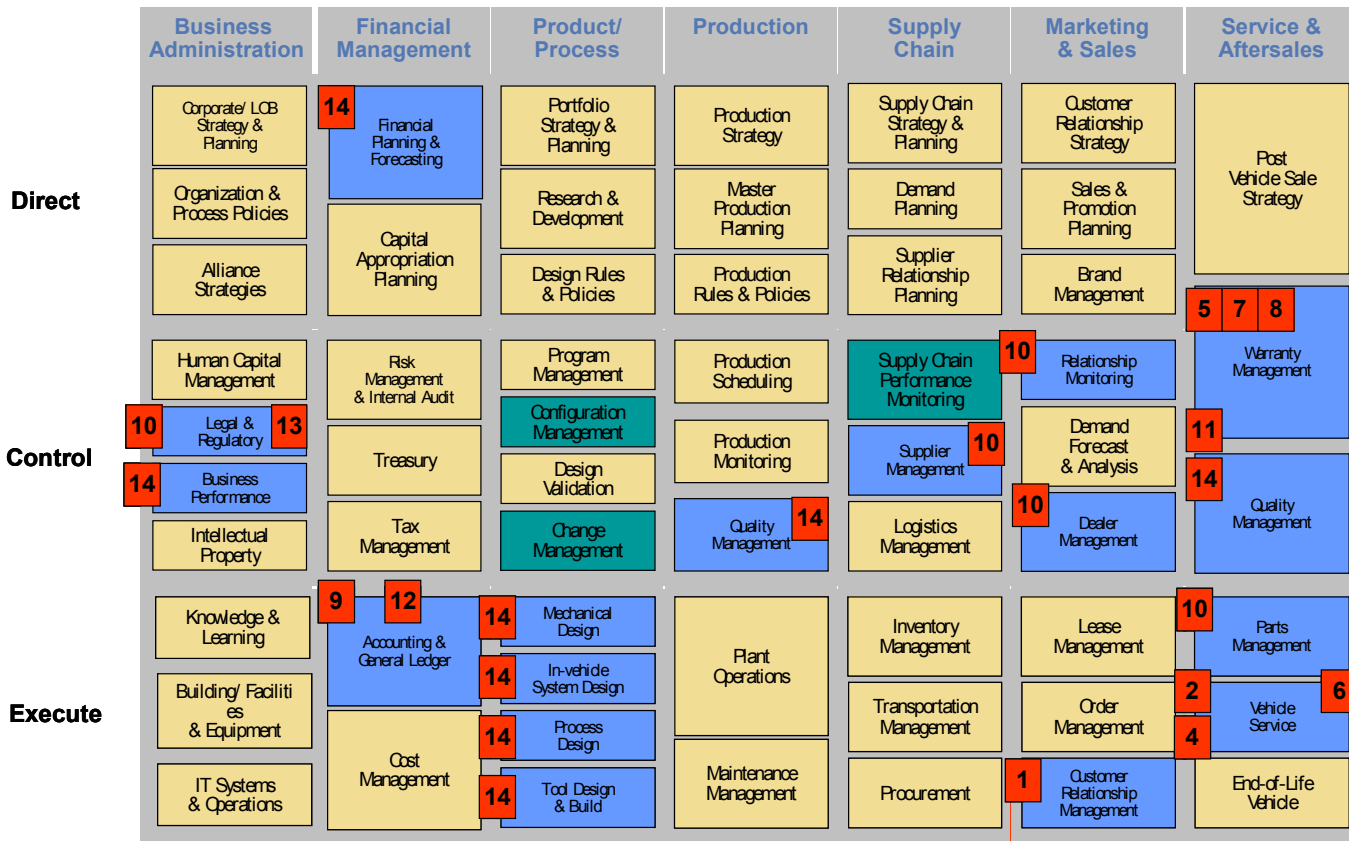
Identify Operational Levers

- Driver tree helps to understand relevant KPI's for this solution
- Value Driver Tree indicates that claim processing ties to SG&A.
- Warranty Mgt costs tied to COGS in form of parts, recall, etc.



Using CBM, the Warranty Claims Processing components can be identified at an enterprise level

1	Customer reports incident or recall
2	Dealer diagnosis of incident
3	OEM/supplier provides tech support
4	Dealer submits warranty claim
5	OEM validates claim and IDs need to evaluate part
6	Dealer returns part
7	OEM analyzes claim
8	OEM determines pay out to dealer
9	OEM pays claim
10	OEM generates reports, early warnings
11	Supplier investigates part problems
12	Supplier re-imburses OEM per contract or agreed to settlement
13	Supplier generates reports
14	Supplier and OEM history used by other areas of business



Putting these all together by component gives a clear view on a prioritized set of initiatives that need to be undertaken

WCP Components (Subset)	Activity Level 1	Strategic Impact	Financial Impact	Transformational Priority
Warranty Management	Communicate Warranty - Transaction	Basic	High Cost	Immediate Priority
	Communicate Warranty - Notification/Recall			
	Monitor, track warranty and repairs			
Quality Management	Manage Claims	Competitive Parity	High Cost	Immediate Priority
	Identify quality issues			
	Monitor/Diagnose parts			
	Analyze Early Warning data			
	Provide Feedback to enterprise			
Regulatory Compliance				
Vehicle Service	Develop/Distribute Service procedures	Competitive Parity	High Cost	Medium Priority
	Develop Service technology parameters			
	Train service providers			
	Arbitrate with Dealers			
Consumer Relationship Management	Resolve Tech issues	Differentiating	High Cost	Immediate Priority
	Collision			
	Manage Consumer Contacts/Call Center			
	Follow-Up on Consumer Delivery / Sales			
	Provide value add services			
Supplier Relationship Management	Customer 360	Differentiating	Limited	Immediate Priority
	Provide Telematics Service			
	Retail/Direct Management			
	Manage Relationship Contacts			
	Develop Sourcing Strategies			
Supplier Quality Management	Monitor Supplier Performance	Competitive Parity	Limited	Medium Priority
	Manage Supplier Relationships			
	Manage certification/training			
	Manage Supplier Communication			
	Maintain Supplier information			
	Advanced Product Quality Planning			
	Advanced Product Quality Tracking			
	Supplier Performance Monitoring			
	Train Suppliers			

Discussion Points

- Are there high fixed cost areas that can be converted to variable?
- How easily can key business areas be transformed?
- What are the barriers to making changes for a component?
- What are the transformational dependencies between components?



Case study 3: We have created a specific version of CBM for the CIO

	IT Customer Relationship Management	IT Business Management	Business Resilience	Information and Knowledge Management	Service and Solution Development	Service and Solution Deployment	Service Delivery and Support
Strategy & Planning	Business Enablement Service & Solution Strategy	Business Technology Strategy	Business Resilience Strategy	Information Management Strategy	Development Strategy	Deployment Strategy	Services Delivery Strategy
		Enterprise Architecture	Regulatory Compliance Strategy				IT Support Strategy
		Portfolio Management	Integrated Risk Strategy	Knowledge Management Strategy			
		Technology Innovation					
Checks & Controls	Business Performance Planning	Financial Management	Continuous Business Operations	Information Architecture	Services and Solutions Lifecycle Planning	Change Planning	Operations Planning
	Demand Management	Business Technology Performance & Value	Regulatory Compliance	Information Resource Management			Infrastructure Resource Planning
	Communications Planning	Human Resources Management	Integrated Risk Management	Knowledge Resource Management	Services and Solutions Architecture	Release Planning	Support Services Planning
			Security, Privacy And Data Protection				
Operations & Execution	Business Performance Mgmt	IT Financial Management	Business Resilience	Data and Content Management	Service and Solution Creation	Change Implementation	Support Services Management
	IT Service and Solution Marketing	Staff Administration & Development	Regulatory Compliance Remediation	Knowledge Capture And Availability	Service and Solution Maintenance	Release Implementation	Infrastructure Resource Management
		Supplier and Contract Administration					Infrastructure Operations



The top of the slide features a decorative border of stylized flowers in various colors (blue, orange, yellow, white) against a background of faint, overlapping digital patterns and circuitry. The text "IBM FORUM 06" is prominently displayed in a bold, white, sans-serif font.

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In summary

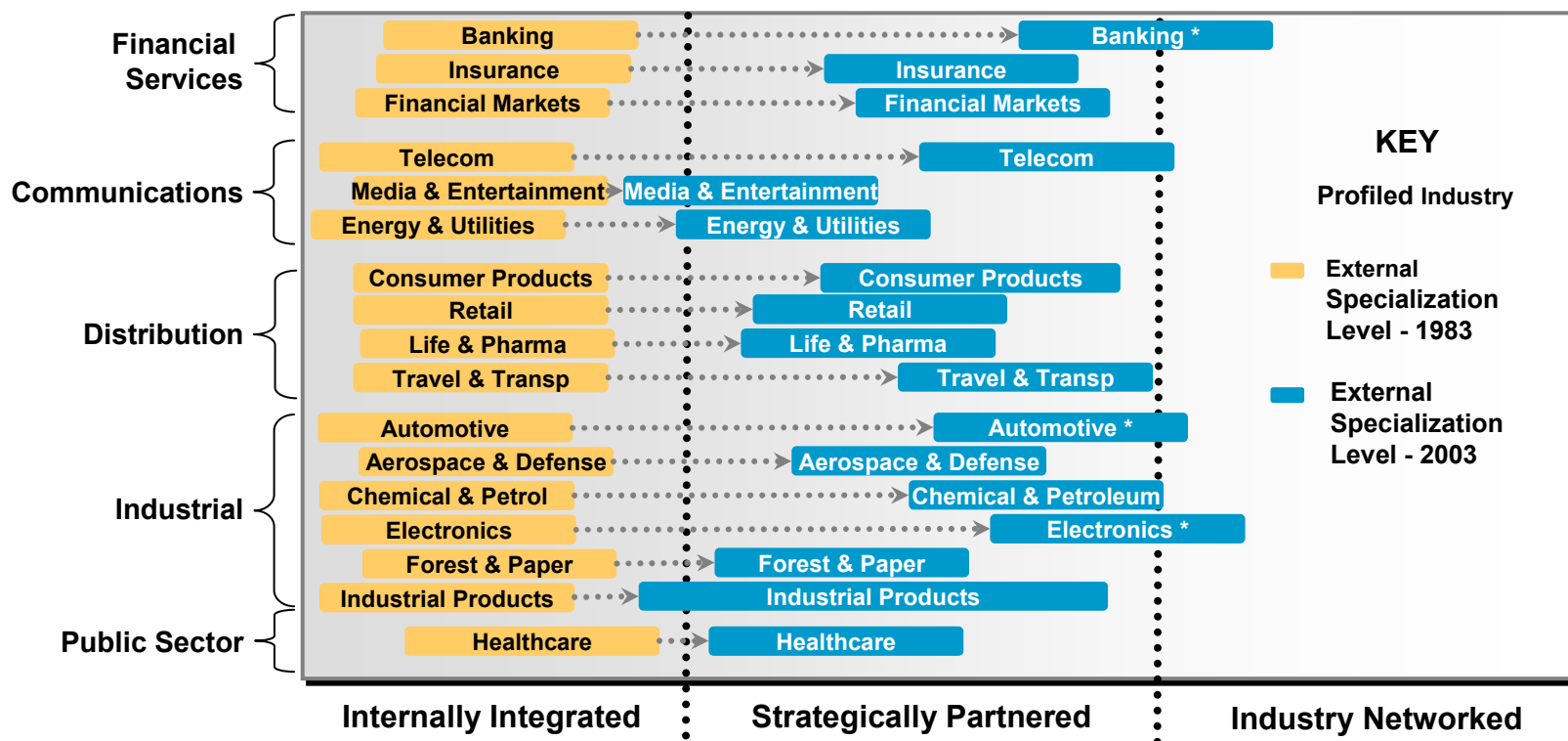
... future direction

A photograph of a modern, multi-story office building with a white facade and dark horizontal bands, located in the bottom left corner of the slide.

what makes you *
special?

Every industry is following the path of external specialization with several entering the Industry Networked phase

Industries Are in Different Phases of External Specialisation



In conclusion, we have found that modelling a business as a network of components can lead to value creation in three critical areas

- **Efficiency**
 - eliminate duplication
 - optimise processes around centralised, bounded business activities.

- **Strategic planning**
 - expose the true cost, process effectiveness and output quality
 - evaluate differentiating components and strategic actions to take.

- **Flexibility**
 - CBM allows firms to be more nimble and respond to rapid changes in the business environment.





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Thank You

what makes you *
special?