

# USING THE PURPOSE-BASED ALIGNMENT MODEL TO IMPROVE BUSINESS AND IT AGILITY

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## ***Abstract***

*The Purpose-Based Alignment model focuses organizational resources on processes, products and projects that will best meet and respond to market demands. Conversely, the model helps organizations appropriately reduce resource expenditures in areas whose goal is not differentiation.*

*This model was initially designed to ensure that IT solutions delivered the highest possible business value by defining the business goal the solution. This approach provides the greatest return on invested capital. In a broader organizational application, the Purpose-Based Alignment model helps organizations:*

- 1) Identify which activities deserve their best attention and focus (i.e., pick which battles they should be fighting);*
- 2) Simplify and streamline their operational processes; and*
- 3) Limit the scope of projects and over-building their underlying features.*

*The net result is improved IT and organizational agility and adaptability.*

## **1. Introduction**

Over the past several years, companies have become disenchanted with technology solutions that do not deliver business value. They have outsourced key competitive processes, launched technology projects that far exceeded their planned budgets but did not deliver expected functionality, forgone investments in off-the-shelf software and become jaded to the newest application or hardware sales pitch. Unfortunately, this has not kept us from trying to build a better technology mouse trap that creates competitive advantages in a continually changing marketplace and that captures market share by meeting the continuous escalation of customer expectations. The problem facing many companies, therefore, is to discover a way to deliver the technology they need while not over-building or over-complicating the technology and the business activities the technology supports. Such over-building and over-complicating not only reduces business value and return on investment, it also limits organizational agility and market responsiveness. Organizations that cannot find a way to apply new technologies and business rules without over-investing risk limiting their ability to respond to market changes.

The answer, found in the Purpose-Based Alignment model, is to align business activities and IT systems with their business purpose. The purpose of some activities and systems is to differentiate the organization in the marketplace. The purpose of others is to achieve and maintain parity with the marketplace. By recognizing the difference in these “purposes” and allocating design, investments, innovation, and resources accordingly, organizations can excel in the proper areas and simplify and streamline in other areas. This approach provides the foundation to not only respond to but lead market dynamics. This approach also maintains to proper organizational focus. Stated differently, by recognizing that not all activities are created equally, we maximize performance by reducing the complexity and bureaucracy of “parity” processes while focusing our best thinking and resources on the “differentiating” processes.

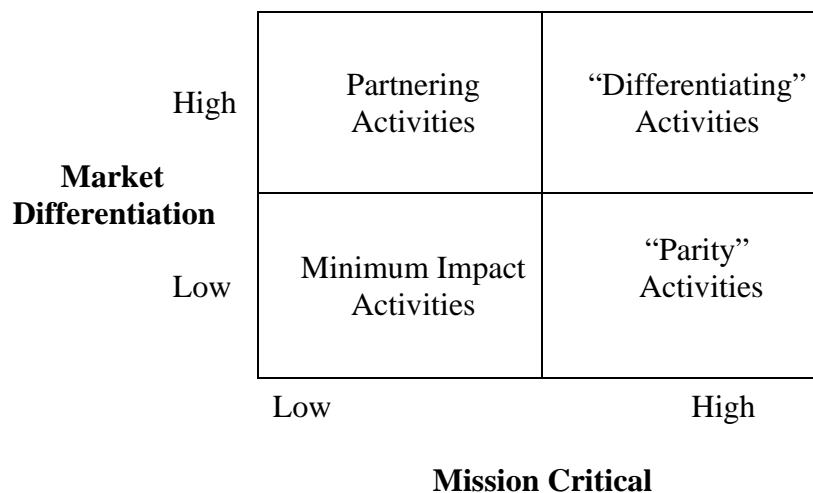
## 2. The Purpose-Based Alignment Model

The Purpose-Based Alignment model is a four-quadrant diagram that classifies products, processes and projects (and their underlying features) as either high or low in two categories: Mission Critical and Market Differentiation:

Mission Critical: The degree to which our activities and processes are essential to our ability to deliver our products and services and operate as an organization.

Market Differentiating: The degree to which our activities and processes help us gain market share and enter new markets

We use these two categories to create a graphical representation of the model (Figure 1).



*Figure 1 – Purpose-Based Alignment Model*

These two categories (Market Differentiating and Mission Critical) create four types of activities, processes, products, projects, et cetera as follows:

**Differentiating:** These are high for both Market Differentiation and Mission Critical. These create and grow market share. The goal for these is to excel; to be an improvement over the competition. Innovation is critical for activities, products, and processes in this quadrant so that we can gain and maintain a sustainable competitive advantage in the marketplace.

**Parity:** These are high for Mission Critical but low for Market Differentiation. The bulk of our activities fall into this quadrant. The goal for these is to achieve and maintain parity with the market. If we perform these activities poorly, we do harm to the business and fall behind the competition. However, if we over-design, over-develop, over-allocate, over-complicate, et cetera these processes, we not only over-invest (and steal resources from Differentiating activities) in these activities but also reduce our organizational agility (we have to navigate through the complexity as we attempt to respond to or lead market dynamics). To perform these activities, we adopt best practices (which should cause us to simplify and standardize these activities). These activities are not static. What defines parity with the marketplace changes as the marketplace evolves. However, rather than design new ways to perform these activities, we “go to school” on the way the market leaders perform these activities.

**Partnering:** These are high for Market Differentiation but low for Mission Critical. Because these activities, products, projects, et cetera are not mission critical for us but can create market differentiation, we find a partner to help us achieve market differentiation. For example, a publisher might form a partnership with an electronic content distributor. The publisher provides content. The distributor maintains the ever-changing technology to electronically deliver the content. This provides the publisher with a potentially differentiating product without having to build a mission critical capability to manage electronic distribution.

**Minimum Impact:** These are low in both Market Differentiation and Mission Critical. These activities have no meaningful connection to our operations or our markets. Our goal in dealing with these activities is to minimize, as much as possible, the time, attention, and resources we spend on these activities.

### **3. Implementing the Purpose-Based Alignment Model**

We start by defining the criteria we will use to segregate our activities into the four types. We then filter all of our activities through the criteria and onto the appropriate box. In some cases, activities will straddle boxes. That is fine so long as we know which activity components belong in which box. In practice, I use the model to first identify the activities that belong in the Differentiating box. I then know that everything else falls into one of the other boxes (and most likely most fall into the Parity box). I use these results to make generalized judgments about how I will manage these activities.

It is sometimes challenging to define the criteria we use to segregate our activities. I often use the models used by Treacy and Wiersema (*The Discipline of Market Leaders*) to establish strategic intent (Product Leadership, Price Leadership, Best Customer Solution). I then ensure that our segregation criteria align with the strategic intent (for example, if strategic intent is price leadership, the differentiating activities should promote price leadership).

After assigning our activities to their appropriate boxes, I assume that the goal or purpose of each activity is associated with its box as follows (Figure 2):

<b>Market Differentiation</b>	High	<p><b>Partner</b>  <i>Leverage the experience of someone who does a better job in this space</i></p>	<p><b>Excel and Innovate</b>  <i>Focus efforts and resources on these processes, products &amp; projects</i></p>
	Low	<p><b>Maintenance</b>  <i>Not important to our strategic initiatives and may be a good candidate for outsourcing</i></p>	<p><b>Parity</b>  <i>Apply industry standards when possible</i></p>
		Low	High
		<b>Mission Critical</b>	

Figure 2 – Aligning Activities With Goals

I want to ensure that I am “best-in-class” at my Differentiating activities. These are the battles I choose to fight. I focus my best thinking, talent, and resources on these activities. I learn how to continually innovate and improve these activities and their results (I have to continually innovate and improve these activities as, over time, they move to a different box).

The goal of my Parity activities is to achieve and maintain parity with the market. Doing anything more than achieving and maintaining parity with the market implies that I am over-investing in these activities (which, in addition to the poor value this provides, carries an opportunity cost – I am spending my valuable thinking, talent, and resources unnecessarily). These activities are prime candidates for simplification and standardization. In fact, I optimize my business agility the more I simplify and standardize these activities. I need to perform these activities well but I also need to ensure that they activities do not “get in the way” of my responding to the dynamics of the marketplace.

The Partnering activities give me the opportunity to find a partner for whom these activities are either Differentiating or Parity. Exploiting such partnership opportunities increases agility.

It matters little how I handle the Minimum Impact activities. In fact, I should invest as little thinking, talent, and resource in these activities as possible.

#### 4. Examples and Results

Software Development – I used the Purpose-Based Alignment model and methodology to dramatically accelerate and simplify a large software development project. The project was initially designed to build a document collaboration and management system supporting the

drafting and submission of financial documents (Annual Reports, 10-K Statement, Investment Memoranda, et cetera). The initial technical requirements document defined over 7000 function points, a budget of \$2M, and a development timeline of 18 months. We defined our filtering criteria and mapped the functional requirements onto the model. This resulted in our identifying two “differentiating” components and 27 “parity” components.

We made a conscious choice to re-use or license existing technologies for the parity components and allocate our thinking, talent, and resources on the two differentiating components. This resulted in a development plan of 240 function points (rather than over 7000), a budget of \$350K (rather than \$2M), and a timeline of 4 months (rather than 18 months). While these results are not typical, they show how using this model not only reduced the cost and time of the project but also focused the company on the functionality that now and in the future make this a superior product.

Enterprise Software Selection and Implementation – I have applied the model to the selection, implementation, and support of enterprise software (ERP) systems. For most companies, ERP functionality supports Parity activities (like purchasing, inventory management, financials, order management, et cetera). This being the case, an ERP selection and implementation project should assume an implementation with no (i.e. zero) customizations. Customizing the business applications that support parity activities implies that we are over-investing in these activities (as customizations require thinking, talent, and resources). In addition, customizing the business applications that support parity activities implies that we will have to revise or re-build these customizations before we can respond to changing market conditions.

As an example, I used the model and methodology to reduce the budget and timeline for an ERP selection and implementation project from \$4.4M and 3 years to \$2.2M and 4 months. Approaching the project this way also accelerated the company’s development of its technology to support its differentiating activities (rather than having its resources tied up for a three year ERP project, it was able to shift the resources much earlier to its differentiating technology).

## **5. Using the Model and Methodology to Improve Agility**

I believe that in order to be adaptive to changing market conditions (many driven by advances in and the use of technology) we must do the following two things:

- First – Fight the right battles. By this I mean allocate our thinking, talent, and resources to those activities that will improve our market position (i.e. the Differentiating activities).
- Second – Simplify all of our other activities. This serves us in at least two ways. First, it frees up our thinking, talent, and resources to fight the right battles. Second, it ensures that these activities will not get in the way of our ability to respond to market changes.

By using the above model and methodology, we learn how to properly allocate our thinking, talent, and resources. In addition, once we have determined that the goal of an activity is to achieve or maintain parity, we have created a context that we can use, both strategically and tactically, to simplify how we perform the activity.

As an example, I recently used this model to significantly simplify the credit-to-collections process for a wholesaler / retailer. This company had developed over 30 different types of customer accounts. We ran all of the financial management processes through the model and determined that the goal of the customer credit process was to achieve and maintain market parity. We could not find any examples where parity translated into multiple account types. Rather, because this wholesaler / retailer had two principal customer types (wholesale and retail) we collapsed the more than thirty different account types into two (one for wholesale customers and one for retail customers). Inside each of these two types of accounts, customers were either good (i.e. paid their bills and paid them on time) or bad (did not pay their bills or did not pay them on time). This simple structure allowed the wholesaler / retailer to simplify its Credit Department and allocate its resources to activities that could provide differentiation.

## **6. Caveats**

I have used the model in multiple situations, both simple and complex. The real challenge in adopting the model is “cultural”. Both departments and people have a natural inclination to ensure that their business activities are classified as “differentiating”. Including the mission critical dimension to the model helps reduce this tendency (but does not eliminate it). Additionally, I have found that using the model to filter activities and then align resource allocation with the results of the filtering is a significant change from how resources are traditionally assigned to activities and initiatives. To pull off changes of this type and magnitude requires leadership and a solid change management plan. The model only helps create the context for changing and simplifying activities.

## **7. Summary**

The Purpose-Based Alignment model allows the organization to allocate its resources to products, processes and projects in an appropriate manner. Decisions at all levels of the operation are now focused on the market and the firm’s mission and the appropriate response to each level of Mission Criticality and Market Differentiating. Likewise, and perhaps even more importantly, it allows a discussion within the firm about the opportunities for strategic improvements and an agile/adaptive approach to future changes.