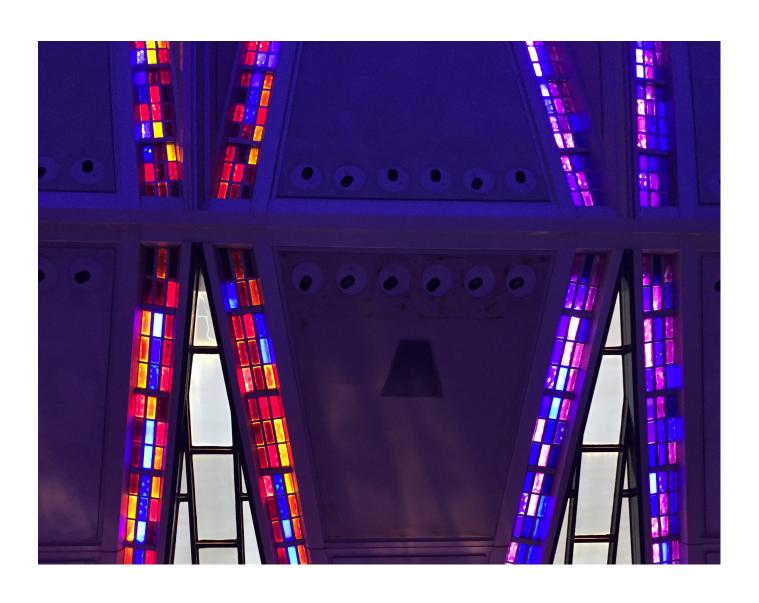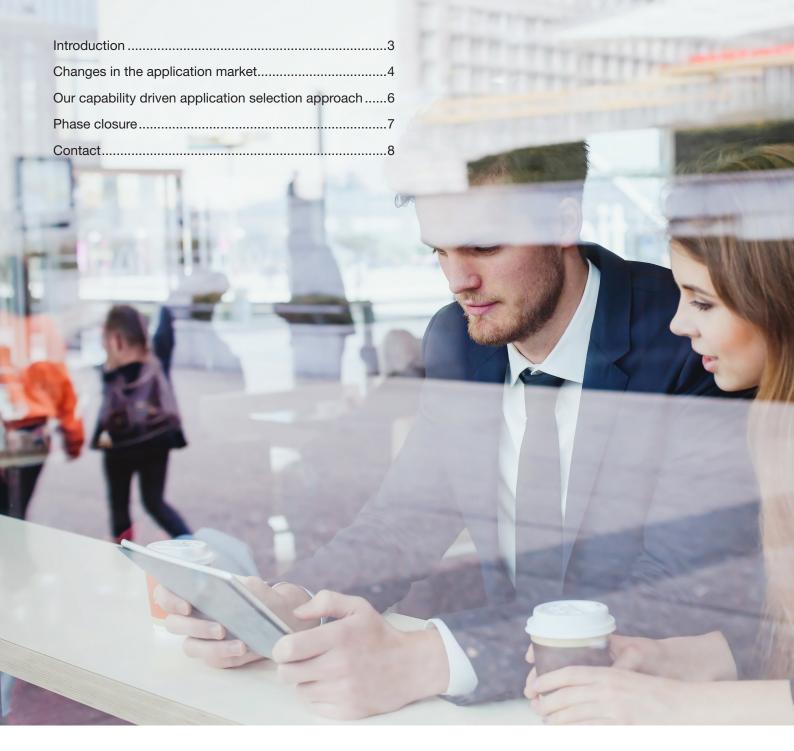# *Capability Driven Application Selection*

For a successful IT-solutions selection

Capability Driven Application Selection
Introduction

In comparison to traditional selection methods, our capability driven application selection approach both shortens the time to decision and leads to higher end user satisfaction.

At PwC we recommend a *capability driven selection approach* when deciding on which business applications to implement. Our experience has shown that this method saves our clients significant amount of time and resources, while making sure that the new application meets the defined business needs. Further, our approach steers the focus in the evaluation of the applications, moving from evaluating answers to written Request for Proposals (or any other type of formal requests, such as RfI, *Request for Information,* or RfQ, *Request for Quotation*) to experiencing the application's live performance in a Proof of Concept.

In this manner, clients improve matching between their expectations and vendor product, making the planning and estimation of the implementation phase easier, while mitigating the risk of issues at the start-up of the transformation. Our approach also shortens the total time to decision, and due to the shift from requirements to capabilities, it ultimately leads to higher end user satisfaction as the solution is better fit for purpose. Last but not least, the capability driven selection approach also increases interaction while reducing administration in the process and bringing more transparency into the selection.

The process of implementing a new technology solution has a number of phases. For the purpose of this Point of View, we have focused on the technology/application selection phase of the overall process. To reap the full benefits of our recommended approach, it is essential that the remaining phases are also adequately managed.

Scope of this point of view:

Set and define strategy and business needs → Capabilities, requirements and technology/application selection → Design, implementation and release of application → Operate & Review → Continuous improvement

Changes in the application market impact the way how clients select technology

Trends in the application market represent a game changer for both business and IT

The application market is evolving at an increasingly rapid pace with new players and uses of technology, changing how we look at the future of the processes and value chains traditionally used to build up IT systems. At PwC, we see that the need for a more flexible and efficient process to select applications is driven by a number of technology trends:

- **Business is taking the role of IT**
  A large number of technology application selections are driven directly from the business as many application offerings are freely accessible via downloads or access to test environments meaning the business can test and evaluate the product in the early stages without involving IT.

- **Rapidly changing requirements**
  Demands from all stakeholders in the value network are changing with an increased speed, from suppliers to customers, putting pressure on the traditional IT-setup and its capacity to react to change.

- **Unclear capabilities**
  The role of traditional ERP *(Enterprise Resource Planning)*, CRM *(Customer Relationship Management)*, PLM *(Project Lifecycle Management)* and other applications are evolving to ecosystems rich in new possibilities (AI *(Artificial Intelligence)*, IoT *(Internet of Things)*, RPA *(Robotic Process Automation)*, social media integration, unstructured data such as weather forecast and more). In such a complex and heterogeneous application landscape, it is increasingly difficult to identify the capabilities that the organisation needs, now and in the future.

- **The customer is the bottleneck**
  Application vendors and system integrators have advanced in the use of agile implementation methods, which makes the implementation process faster. Instead of customers pushing system integrators to deliver more quickly, it is frequently the other way around and system integrators wait for clients to make design decisions that unblock the vendor to move forward in the implementation process.

- **The shift to cloud**
  The number of cloud based, user friendly and relatively easy-to-setup software options has increased at a great rate and is expected to rise even more in the future. Integration has become simpler and makes way for new niche players in the market.

- **Change view on application architecture**
  Companies have started to move from standard application architecture towards Service Oriented Architecture *(SOA)* or Microservices architecture where many different functional systems can be managed and deployed independently within the IT structure.
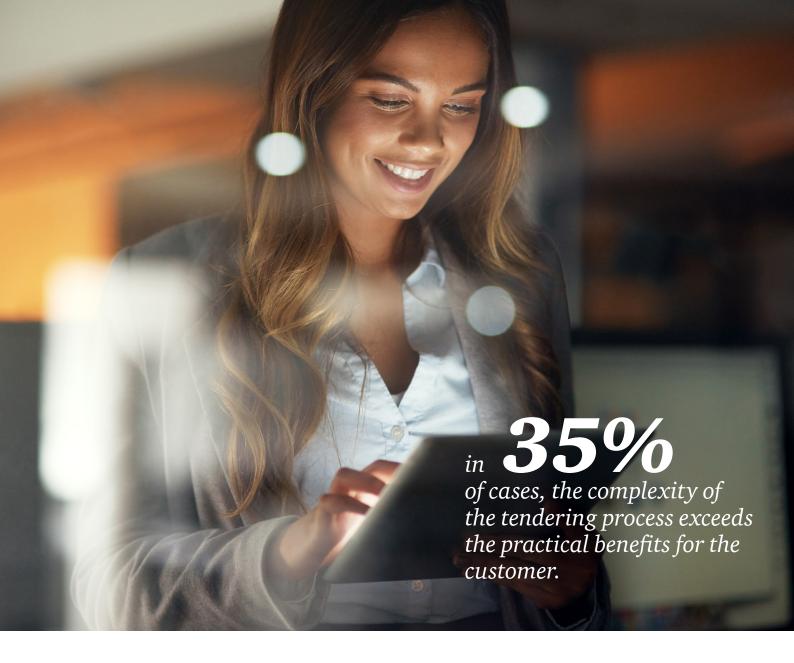
More information on technology trends can be found in the Industry 4.0: Global Digital Operations Survey 2018[2].

Traditional methods of application selection are too complex and time consuming

As technology and standards are changing rapidly along with solution providers operating in more niche categories, it is becoming increasingly challenging to select the right solution to fit the business needs using a traditional application selection approach. As a result, the realized business value might end up much lower than anticipated.[3]

Traditionally, an application selection process consists of a number of steps, such as consolidating a detailed list of technical and functional requirements, extensive application landscape research and evaluation of applications based on a predefined set of selection criteria. While this method secures a solid basis for informed decision-making and limits the risks of selecting an ill-fitting application, it often turns out too complicated, time-consuming, and excessively administrative.

> *"This method secures a solid basis for informed decision-making and limits the risks of selecting an ill-fitting application, it often turns out too complicated, time-consuming, and excessively administrative."*

2) https://www.strategyand.pwc.com/industry4-0

in **35%** *of cases, the complexity of the tendering process exceeds the practical benefits for the customer.*

According to PwC research, the complexity of a traditional Selection process exceeds the practical benefits for the customer in an alarming 35% of cases[3]. We see that these processes often fail to deliver value due to factors such as:

• Too many and too detailed requirements taking away the focus from the critical capabilities which should be the focus for informed decision making. The detailed requirements also mean major investment from the vendor side to produce customized material as well as from the client side to analyse the tendered information.

• Limited in-house capability to define clear requirements upfront in adequate level of detail clearly linked to business needs. This often leads to changes in scope later on in the process.

• Too detailed requirements at an early stage of the process prevent the vendors to offer alternative solutions. This also limits the client to utilise the opportunity to use technology as a driver for innovation and a catalyst for implementing best practices and new ways of working.

• Final decisions often focus on commercials, and therefore fail to give higher weight to solution quality, end user experience or criteria such as cultural fit or user friendliness.

• Inaccurate scheduling of the solution analysis phase as the lack of comparability between offers require more time for analysis than planned. Likewise, the time needed to reach decisions and involving colleagues from other departments is frequently underestimated.

Our Approach:
Injecting more agility into the application selection process

Experience & Best Practice

At PwC, we have been tackling the challenges of selection processes and gathering know how and best practices by supporting our clients on their journeys to find the right applications. We see the need for a more capability driven selection approach to deliver the initially anticipated value as well as enabling a more flexible response to changing business needs.

Figure 1: Key differences between traditional and capability driven approaches of application selection.

	Traditional approach	Capability driven approach
Selection setup	Long process including RFI, RFP, endless requirements and meeting. Administrative but safe.	Upfront down selection based on key criteria's, iterative process based on vendor involvement to select
Involved teams	Large central team, driving requirement workshops, complex evaluations, admin focus	Light coordination on structure, agile teams based on capability area combining business and IT
Functional requirements	Many requirements and focus on quantities requirement fulfilment	Focus on use cases and a few critical functional requirements
Technical / Non-functional requirements	Broad coverage including requirements on scalability, reliability, performance, availability and other technical requirements	Same important, but focus on business critical aspects, ecosystem operability and integration
Vendor	Extensive due diligence of vendor focused on financials, skill base, partners and more	Still important to check key aspects but focus on culture fit and roadmap ahead

Source: PwC Consulting Analysis

Step 1: Capabilities and early identification of alternatives

We at PwC recommend that the capability driven selection approach starts by identifying the client's business capabilities based on the organisational vision and mission. This crucial prerequisite typically includes a description of what the enterprise does to realize a business outcome, which serves as a starting point to define current and future capabilities that the new technology solution needs to support. These capabilities, defined from areas such as processes, people & skills, organization, data and technology, will enable the transformation.

By focusing on the client's business capabilities as opposed to detailed requirements, it becomes easier to concentrate and select vendors who are able to provide a matching set of capabilities for the relevant processes and industry.

Indeed, mapping the key business requirements is still important and should be done simultaneously to defining business capabilities.

We believe that the road to success is to focus primarily on differentiating requirements as a complement to the business capabilities. Other, non-differentiating requirements, should be adapted as much as possible to standard processes and functionalities in the selected application.

Of course, involving IT in defining both the capabilities and requirements helps to prepare the organization for the system implementation phase. Involvement of IT organization is also crucial to ensure that the selected application fits the overall IT architecture and will be sustainable over time.

In parallel to defining capabilities, we recommend that the client initiates a selection process by mapping out a list of the most relevant applications according to a defined set of knock-out criteria (i.e. high-level capabilities match, hosting options, security fit, cultural fit etc.). This assessment allows to move rapidly from a long list of vendors to a short list, which will enable the client to focus their efforts solely on the relevant applications.

A prerequisite for entering the selection phase is to have a clear roadmap and understanding of business needs. At PwC we recommend undertaking a strategy and exploration phase first to better understand overall market and technology trends, along with aligning project scope, business case and roadmap with prioritised business needs and strategy.

Phase closure:
Ready for contract negotiation and technology implementation

Negotiation and pricing

When a decision has been made on which applications are the preferred option and runner-up, the negotiation can start. PwC recommends to focus on the preferred option to accelerate the negotiation process and shorten the timeline that is required to run with two vendors in parallel, this in order to optimize time on both client and the vendor side.

Based on our experience with numerous application selection processes, we recommend to focus negotiation on implementation approach, scope and pricing as a key success factor for the following implementation phases. License fees and legal documents could be more complex to negotiate and this varies depending on the size of your company.

Pricing on the application market greatly differs between different applications and vendors. Therefore, it is important to ensure that all related costs are covered in the pricing model and it is clear what is included in each line item.

Pricing and contract terms are heavily related to each other and it is therefore important that you negotiate these simultaneously.

We recommend to establish a negotiation timeline to ensure that the process is progressing according to the overall plan as the negotiation process can be very time consuming if not managed properly.

Preparation for implementation

While the negotiation and procurement processes are in progress, the project team can initiate mobilisation of the team for the design and implementation phase. It is of importance to start preparing a project plan and mobilising your team at this stage to enable a fast ramp-up and start of the implementation.

The plan should be aligned with the system vendor or system integrator to ensure that you have a feasible plan and that the system integrator(s) can deliver to the proposed timelines.

Typically, we see following basic cost structure, which might then be split into more items (non exhaustive):

- Initial and annual license or subscription costs
- Additional 3rd party suppliers or add-ins cost
- Implementation cost
- Customization costs
- Migration cost
- Integration cost
- Training cost (e.g. classroom trainings, customized training material, online training etc.)
- Maintenance, running and upgrade costs
- Hardware cost (if applicable)

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