

### Architecture & Business Models - A Marriage in Heaven

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Recent strategic thinking links strategy focusing on competitors, markets and customers served with business models that represent the execution of the business to serve the markets<sup>1</sup>. Newth defines the business model as an “internal system that is made up of components, linkages between components, and dynamics.”<sup>2</sup> Both perspectives can be represented by architectures, linked together and the impact of changes, structural options and ranking of importance of alternatives assessed using phrase analytics on the architectures.

Earlier this year we wrote about the various types of architectures and in May’s article focused on business change and risk. The focus was on the business analyst’s use of an architecture-based framework to mitigate risk by assessing impact of risk as it cascades through the various architectures. By making explicit the risks associated with the strategic, tactical, and operational alternatives, it provides executives with an enhanced perspective of how architecture can come to the rescue in assessing organizational risk.

The key issue is to show how architecture represents the competitive view and the execution view. Keep in mind that this approach of using architectures includes representing various types of enterprises especially business, governments and other service and product delivery enterprises.

Business architecture provides focus on the opportunity and capabilities of the organization. They are the driving forces behind a business’ strategy to do a merger, acquisition, divestiture, functional alignment like in IT, improve business execution such as process improvement or even engaging in outsourcing activity. Certainly, various architectures are contextually implicit within the business and that of an anticipated strategy. Thus, the families of architectures (*Enterprise IT Architecture, Business Architecture, and Strategic Business Architecture*) that we discussed in our [February column](#) are part of the anticipated strategy articulation and should be made “explicit.”

The contemporary definition of ‘business model’ varies greatly. Making explicit your business model can take on many forms. For example, the Business Model Canvas<sup>3</sup> focuses on four (4) major areas for consideration: infrastructure, offering, customers, and finances with nine (9) sub-areas being used in its template. For each sub-area of the template, one describes the specific activities. For infrastructure, key activities (i.e., value chain), key resources and the partner network is described. Likewise, the offering describes the value proposition as proposed by the organization. For the customers, a description of the segments, channels, and type of customer relationship being used. Finally, finances describe the cost structure and revenue stream. All of these elements are part of a business model definition. This ontological framework is quite inclusive of the elements of a business model.

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<sup>1</sup> Newth, Francine (2012). *Business Models and Strategic Management: A New Integration*. Business Expert Press.

<sup>2</sup> Newth, *ibid*.

<sup>3</sup> Alexander Osterwalder (2004). *The Business Model Ontology - A Proposition In A Design Science Approach*. PhD thesis University of Lausanne, [http://en.wikipedia.org/wiki/Business\\_Model\\_Canvas](http://en.wikipedia.org/wiki/Business_Model_Canvas).

## ***The Skeptical Architect***

Others have defined business model as simply: Customer Value Proposition, Profit Formula, Key Processes and Resources as four interlocking elements that, taken together, create and deliver value.<sup>4</sup> Joan Magretta describes the model as a story that explains how organizations work<sup>5</sup>. Of course, most business models have to answer the questions that Peter Drucker cited: “Who is the customer? What does the customer value? How do we make money? and How do we deliver value to the customer at an appropriate cost?” Given these various definitions, no wonder architects find it difficult to position and align their IT enterprise architecture with their business model. Note that all these approaches explain business model as a focus on execution. The architecture approach of phrase models can also do more than the execution of the enterprise. This approach can also define the performance and knowledge architectural perspectives of the enterprise.

In discussing *Strategic Business and Enterprise Analysis* of a business, we are referring to the content and dimensions of the organization that need to be assessed effectively and efficiently. For example, our experience in doing Enterprise Analysis over the past 25 years covers a wide range of subjects that may be involved doing the analysis. They may include:

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<sup>4</sup> Johnson, Mark W., Christensen, Clayton M. and Kagermann, Henning. *Reinventing Your Business Model*, Harvard Business Review, Dec., 2008.

<sup>5</sup> Magretta, Joan. *Why Business Models Matter*. Harvard Business Review, May, 2002.

## The Skeptical Architect

Architecture Types / Level	Strategic Business Architecture	Business Architecture (Linkage)	Enterprise IT (Digital) Architecture	Business Model Element
Applications			Yes	<i>Maybe</i>
Communications			Yes	
Content	Yes	Yes	Yes	Yes
Data		Yes	Yes	Yes
Databases		Yes	Yes	
Decisions (Alternatives)	Yes			Yes
Documents		Yes	Yes	
Economics	Yes			Yes
Entities	Yes	Yes	Yes	Yes
Frames (Expert Systems)		Yes	Yes	
Information	Yes	Yes	Yes	Yes
Initiatives	Yes	Yes		
Knowledge	Yes	Yes	Yes	<i>Maybe</i>
Legislation	Yes			Yes
Locations		Yes	Yes	Yes
Markets	Yes	Yes		Yes
Organizations	Yes	Yes	Yes	<i>Maybe</i>
Policies	Yes	Yes		Yes
Procedures		Yes	Yes	
Processes	Yes	Yes	Yes	Yes
Products / Services	Yes	Yes		Yes
Rules (Governance)	Yes	Yes	Yes	Yes
Social Trends	Yes			Yes
Strategies	Yes	Yes		Yes
Taxonomies	Yes	Yes	Yes	
Technologies - Business	Yes	Yes		Yes
Technologies - Information	Yes	Yes	Yes	<i>Maybe</i>

**Note:** A “Yes” indicates that there should be some representation for that category. Not all methodologies include all the components shown here. Over time, the various methodologies should converge on this set of components. Because there are number of different descriptions of business model content, no two approaches are the same. Unfortunately, some of the business model references are implicit and not made explicit. Then, the architect has to make assumptions about the business situation to develop valid business requirements and IT solutions.

At the end of the day the business model for execution is critical for strategic direction success. The architect uses enterprise business analysis methods to identify, rank, assess impact and decide on the execution, knowledge and performance problems management wants solved. This requires a method that articulates the artifacts needed for conclusions, the categories of analysis to use and the traceable linkage between architectures. Given that these are available, phrase analytics coupled with quantitative methods will provide the insight needed for effective restructuring of execution along with the knowledge and performance whether major or minor.