

IT strategy for higher business value

Creating high business value driven by IT value management

A recent IT value management study conducted by A.T. Kearney and the University of Karlsruhe among major corporations from different industries came up with surprising results: almost 100% of the companies believe in IT value, but only 60% of the companies have an IT strategy in place. Companies managed to define an IT strategy according to their business needs easily, but not even one IT strategy shows a clear relationship between business and IT value. A.T. Kearney's study analyzes companies' achievements, gaps and the path forward in IT value management as part of the CIO agenda.

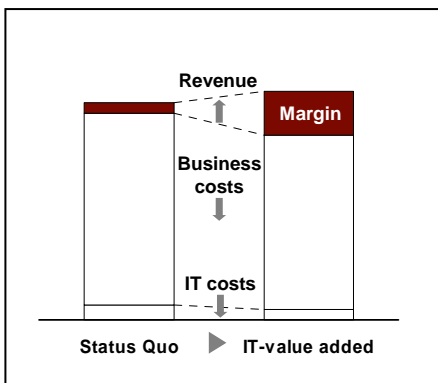


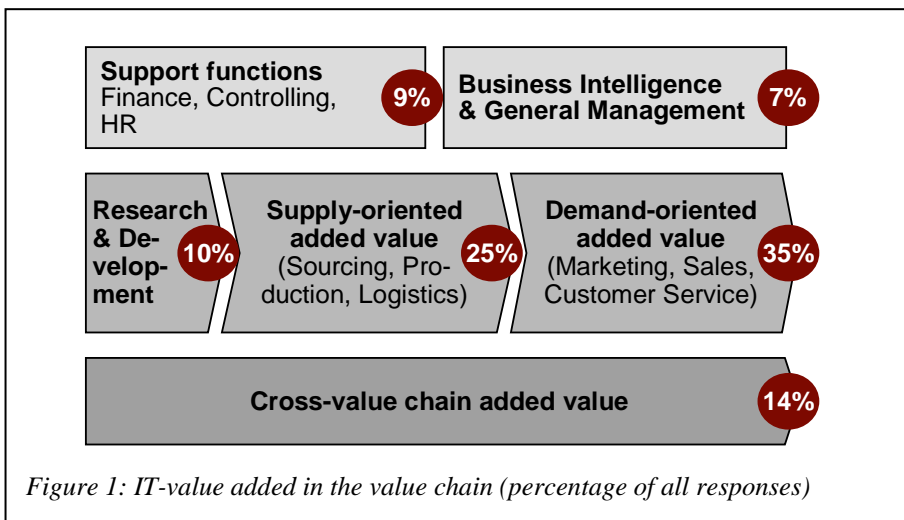
IT adds value at the top as well as at the bottom line

Added IT value is traditionally seen in the reduction of business and IT costs thanks to automation and process efficiency. Surprisingly, many participants perceived an increase in business revenue and demand-oriented functions in the value chain as just as important as the cost-decrease effect of IT usage. Today, IT is becoming ever more important to support sales, marketing and customer services in their work to be successful in a global,

competitive marketplace. Along the value chain, value added can be identified in the core functions. IT has the highest value-importance in demand-oriented functions, such as CRM or call center applications, followed by supply-oriented tasks such as enterprise resource planning or logistics and production planning. For research & development IT is also critical, especially to support engineering and design processes. IT contributes to cost reductions and revenue improvements thanks to increased process effectiveness and efficiency. It also has a positive impact on the build-up and sharing of know-how. The best valued added is in the complexity of billing systems, call centers, planning or logistics/supply chain. Therefore, the study shows how much IT is seen as a revenue

Surprisingly, study participants perceive IT as important for demand functions and business revenue as for cost efficiency and process automation





generator as opposed to a mere cost reducer, which was the role IT played for a long time. Most participants have the perception that IT value will continue to grow for business as well as for IT reasons. The most influential trends they see that help increase value are

globalization, market consolidation and product changes on the business side and Outsourcing/Offshoring as well as standardization and service orientation on the IT side.

Participants realize that these trends influence IT projects. 50% of the participants see standardization of

processes and systems as a future project priority, 35% see realignment after mergers and acquisitions as a top trend and 20% evaluate a consolidation of the landscape and systems as important.

Along with their statements regarding these trends, the companies have been asked to identify particularly successful areas as well as areas of improvement.

While the future project definition of process and information exchange are seen as successful areas, room for improvement obviously exists in the overall communication with the business as cross-functional process standardization and the earlier involvement of IT in projects.

IT strategy as basis for IT value management

For a sound understanding of the various aspects of IT strategy within the participating companies the questionnaire was structured along the relevant topics:

- IT governance
- IT value management
- IT applications
- IT infrastructure
- IT sourcing.

It turned out that 60% of the companies have an IT strategy in place. These strategies are viewed as derived from the business strategy yet each with different focuses. These focuses are either IT cost orientation or business orientation. IT cost orientation has two main areas: consolidation of IT

applications and standardization of IT infrastructure on the one hand, and increasing efficiency based on make-or-buy decisions and optimal infrastructure performance at defined costs on the other hand. Business orientation focuses on IT's enabler role for the company. Business-oriented IT strategies concentrate on business process optimization, growth generated by IT and are clearly service- and quality-oriented, whereas reducing IT costs is a second priority in this context.

This obvious fragmentation points at the fact that not all strategic topics are addressed by each company. Sometimes there are even opposite tendencies to be found in an IT strategy such as service and

The IT strategies of the companies have very different focuses

innovation focus and cost minimization at the same time.

Companies with business-oriented IT strategies put emphasis on centralized, server-based applications adding value in cross-functional business processes, while the more cost-oriented strategies tend to use more standardized infrastructure and are not focusing on business value in the same way.

IT value management: Different concepts for one objective

In the participating companies IT value management is deployed as one means of managing the performance and value contribution of IT internally and to the business. This comprehensive objective often leads to the application of multiple different IT value management and controlling instruments.

Starting from simple budget and cost controlling, some companies use IT balanced scorecards, others measure their return on IT investment or just check if service level agreements are met by the IT internal or outsourcing service providers.

IT cost benchmarking and total cost of ownership are further instruments with focus on IT costs.

Of course no single company uses all approaches, some use combinations, some only one approach which is applied by each company. None of the IT value management concepts

fulfills formulated requirements 100% – not even the very popular ones like balanced scorecard or budget/cost controlling –, therefore normally more than one concept has to be applied.

Making compromises helps companies find the solution that meets their needs almost 100%. The decision for the most often applied solution as a compromise is usually made for several reasons: Fulfillment of requirements, frequency of use, tradition and experience, measuring frequency, results communication and the chance to cascade the results into the organization to upper or lower levels.

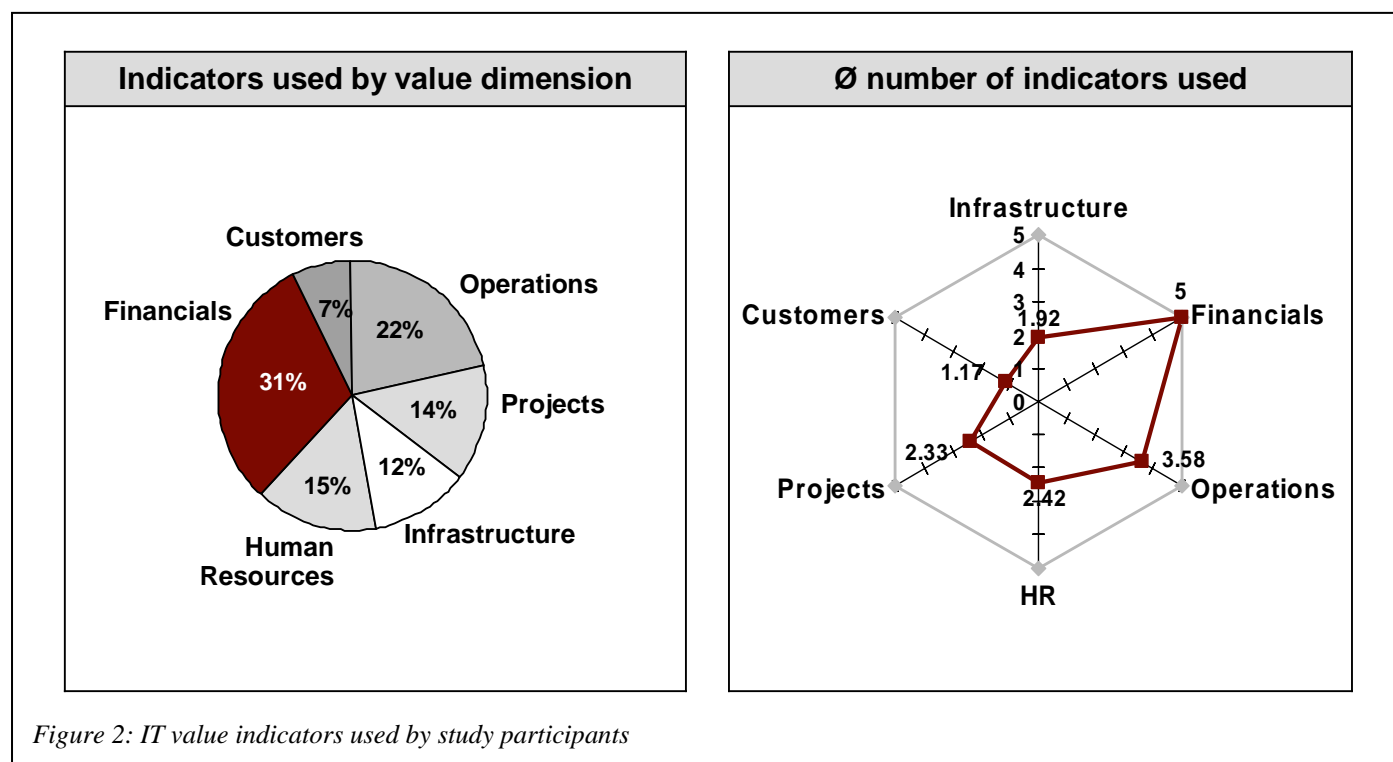
The IT value management indicators applied focus on financial and operations indicators, while business-related indicators for customers or projects are used less often.

Users feel that implementation and

IT value management instruments are evaluated as effective

operation of IT value management is generally successful because of the right amount of top management support, clear design, adequate timing as well as strict and transparent governance.

However, there are still areas for improvement, including a more structured approach, more communication, process quality improvement and – last but not least – fast implementation.



Conclusion

The study revealed that IT value-added to the business is perceived as high, shifting from (business) cost efficiency more to business revenue improvement. Although all participants share this understanding, only 60% of the companies defined an appropriate IT strategy.

Not one but multiple IT value management instruments are used and perceived as effective, however mainly focusing on IT costs. They

often are not aligned with the business and IT strategy.

Development of IT strategy and the incorporation of business value into IT value management instruments should be on the CIO agenda as a next stage of excellence.

The incorporation of business value into IT value management instruments should be on the CIO agenda.

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A.T. Kearney is one of the leading global management consulting firms. We have a broad range of capabilities and expertise in all major industries — and we offer services across the spectrum from strategy through implementation. We pursue a clear objective: to deliver maximum contribution to success for all business units and to sustainably enhance company value. A.T. Kearney is a consultancy with 2,500 employees in more than 30 countries around the world.

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