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9 Strategies for Increasing Business Value from IT

Information technology is taking on a larger and larger role in business. As the supply chain becomes more integrated, this will only increase. The costs of depending on information technology will also continue to increase and form a larger percentage of income. Information Technology already requires an average of 4% of revenues for the traditional business. For some businesses, which are totally dependent on IT, the percentages can be much higher.

Yet in most organizations there is a question of how much IT is contributing to the business. It forms a higher percentage of the costs, but the costs are not related to revenues. It is often seen a black hole which is not understood by the business. In other cases, the business sees what might be delivered by new technology, but is unable to capitalize on it. New initiatives fail to deliver projected benefits in the time frame required by the business. In some cases, IT is considered to be constraining the business.

The following strategies will help to address these issues.

1. Identify the applications that support the key business processes.

In order to understand the value being delivered by IT, you have to understand what business IT is supporting. By classifying IT applications by the business functions, you achieve two things: A better understanding of what benefit IT is providing and the ability to define support structures for each business area supported.

You will end up understanding whether IT is simply reducing costs, or supporting revenue sources.

2. Categorize IT costs by business process supported.

Often the cost of IT is either buried in individual budgets, or consolidated into one budget, making it an easy target for cost cutting. Seldom are IT costs consolidated, yet broken down by business unit or revenue sources.

This type of breakdown provides you with an understanding of how IT expenditures relate to the operation of the business. It would allow costs to be classified by revenue source, thereby calculating the profitability of products. If it is necessary to cut costs, they could be cut in areas of slow growth or low profitability, not in areas of high growth, thereby improving performance of the business, rather than degrading service across the board.

3. Establish the service requirements for IT by line of business.



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Here again, not every product is as profitable as the other, and some products are the source of future revenue. If there is a need to improve the level of service, expenditures should be made in the areas of greatest opportunity. Results of investments can also be measured against business results.

4. Measure the level of service delivered by IT in business terms.

Technology based measurements are generic and do not reflect the areas of the business. They do not measure the business impact of downtime or failures. The most effective measurements are those that relate directly to the business.

For example if availability is a measurement, all failures are not alike. If the peak buying period is at 11am and minimal business is conducted at 11pm, then a failure is much greater at 11am, and should be prevented. Greater investments in solutions to prevent outages at 11am would be a good investment, even if it required the service to be down at 11pm.

5. Identify key areas of the business where technology could make a significant contribution.

New investments in technology should be focused on areas where it provides the greatest benefit. This may be an obvious statement, but if too much of your current expenses are being spent in keeping the lights on, there is limited opportunity to invest in high value areas. By using the categorization define above, the costs of supporting low value areas could be reduced or cut completely, while investing in areas of higher value.

6. Define the objectives of new IT initiatives by revenue/cost reduction by line of business.

There are always more requirements for IT projects than there are resources to deliver them. While most initiatives do some sort of cost benefit analysis, there is always competition for limited dollars. If we again focus on lines of business, those lines that will form a greater portion of future revenues should be the areas of focus.

In addition, the portfolio of projects needs to be managed to maximize future revenues as well as minimize future costs. As circumstances changes, be ready to cut initiatives that no longer offer the greatest benefit, even though they may be well underway. This may be the greatest challenge for most organizations.

7. Establish a project management office to manage IT projects.



Failure to meet project deliverables in benefits or deliverables has been a common problem in IT. Much of the cause has been that IT organizations have been focused on technology and not business results, or project management. Although project management has made great strides at improving results over the last few years, it is still in its infancy in many organizations.

By establishing a project management office, which sets standards for managing projects, develops project management skills, tracks projects and measures the results, better results will be achieved.

8. Establish measurements for each new initiative at the beginning and measure results throughout the project.

When a business base is developed for a new application, there are expectations of benefits established. In most cases the return on investment (ROI) forms the basis for proceeding with an initiative.

While this is established at the beginning, it is seldom tracked after the project gets underway. In any project, alternatives are identified throughout the project and decisions made. Since many of these include requirements that were not previously identified, additional costs are required. If the tracking of benefits is not carried forward, then the costs could end up exceeding the benefits.

In addition, if the purpose of the new application was to increase sales, then the measurements should include the sales increases, not just the costs.

When the initiative has been completed, and the volumes are fully in place, a true measure of ROI can be established. Since the costs have already been categorized, and not simply added to the "lights on" budget, this can be readily performed.

9. Make business and IT executives jointly accountable for results.

Another common cause of project failure is the assumption that the implementation of new technology is an IT problem. IT collects the requirements and goes off to develop or purchase the application. IT plays the major roles in implementation of the technology, and it fails to have the desired impact on the business. Business users do not see the benefit, don't like the interface, it doesn't do what was expected.

The implementation of new technology is not a technology or IT problem! It is a business problem! The major reason for many failures is the lack of **proper change management**.



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This is a business issue! The management of the business area has not prepared his organization for the change!

In order to be effective, both the CIO and the business executive should be accountable for the results.

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