

# Introduction: The Value of IT – New Perspectives for Utilizing IT

What value does IT provide for the company? This has been *the* key question for IT managers and decision-makers at board level since technologization began. From the introduction of the first automated data processing systems to integrating value chains across enterprises, the potential of IT to generate benefit and, in the final analysis, generate value for companies has grown in leaps and bounds.

In the 1970s, the value of an IT investment for automating individual operations consisted of faster and cheaper handling of paper-based activities, and therefore, for example, shorter time-to-invoice and collection cycles for faster inpayments. In the 1980s, the triumphal march of the PC and the first integrated applications not only reduced business process costs, but also accelerated and optimized entire business process chains. For example, in the mid-1980s, systems such as SAP R/2 were already offering integrated processes for everything from procurement, inventory management and distribution to accounting and controlling. Processes ran more smoothly, interfaces were optimized or eliminated, in short: huge potential for reducing business process spending was created. In the 1990s, Enterprise Resource Planning (ERP), Customer Relationship Management (CRM) and Supply Chain Management (SCM) then made it possible to integrate business processes across the value chain.

Since most enterprises began using the Internet at the end of the 1990s, there has been a shift in focus from simply utilizing IT to utilizing it to create and add value. The driving force behind investments has not only been the cost-cutting potential of IT, but also its potential for adding value: IT enables new markets to be discovered and allows companies to overcome the challenges of globalization. Through IT new products are created and IT becomes a sales-relevant part of existing products. Since IT has also started directly impacting operations, it has become a value driver for enterprises.

However, the paradox of IT remains: The real value of IT is not produced where the costs are incurred. The effects of cost cutting and improving the quality of internal processes is recorded by the controller, the increase in sales is registered by the head of marketing. It is the IT manager however who remains responsible for the costs. But what is the relationship between the cost and the benefit of IT?

Strategic IT management enables enterprises to generate value from the use of IT: i.e. measurable and controllable sales boosts and cost savings. Strategic IT management has three crucial imperatives that create new perspectives for using IT:

- **Drive value!** IT justifies its existence through its support of corporate strategy. Deriving *IT strategy* from corporate strategy and/or shaping corporate strategy via IT strategy increases IT's potential to reduce business process costs and benefit operations, and ultimately enhance revenues, and create value. Case studies from a number of sectors show how *IT can be used as an enabler* for business. The more IT alters business operations, the more the company itself will be transformed. Carrying out this transformation in such a way that the user is able to reap the value of IT is the task of *enterprise transformation*. Successful external growth and streamered portfolios demand comprehensive adjustments to both IT and business processes as part of *IT merger integration* and *IT carve out*.
- **Control output!** The value of IT can be measured and thus controlled, but only if the organizational framework of *IT governance* is a given. IT governance provides a blueprint for IT within the company – a kind of IT 'highway code'. *IT planning* that is an integral part of corporate planning identifies cost saving potentials and ensures that the IT budget no longer restricts value enhancement. *IT performance management* is a universal IT management and control instrument that quantifies and controls the value of IT in direct alignment with corporate strategy.
- **Reduce costs!** Cutting costs in IT also means increased performance, yet not by making sweeping cuts across the board. *IT optimization* involves providing the best possible support for business processes at the lowest possible cost. Furthermore, setting up internal IT service providers and sourcing IT externally as part of *IT outsourcing* and *IT offshoring* will also further enhance the cost-cutting potential of the IT.

Based on numerous international consulting projects and worldwide studies, we are convinced that IT generates more value through its benefits for operations than is generated by reducing spending in the IT department itself. In fact, far from spending too much on IT, most enterprises spend too little: In many enterprises less than five percent of the IT budget is allocated to strategic IT projects. In sectors with fierce competitive pressure and a high level of innovation, this is not enough to compete successfully in the long term. Certainly it is essential to reduce IT spending – not least in order to release some funds from the IT budget for strategic projects. However, in strategic terms, it is not reducing IT spending that is most crucial, but rather increasing the impact of IT on operations.

In order to develop IT value, many enterprises must first fundamentally alter their mindset: IT should not only be employed to realize planned increases in company value. As a value driver, IT has the task of identifying and proactively fostering the value enhancement potential of the company. The IT department is more than a glorified technical maintenance team and troubleshooter, rather the CIO is one of the architects of the com-

pany along with senior management, and it is his job to contribute to increasing the value of the company – top and bottom line.

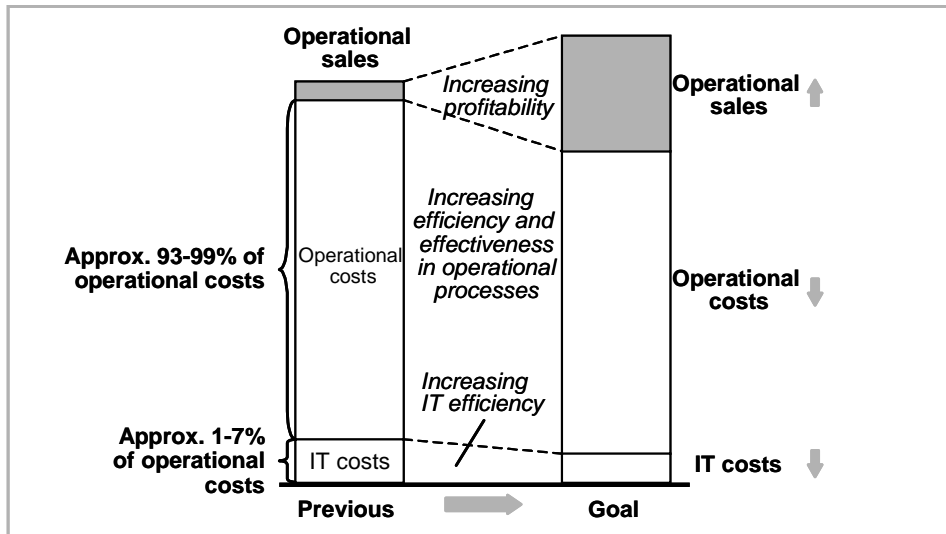


Figure 1: The value contribution of IT; Source: A.T. Kearney

IT investments must be just as measurable as any other investment in terms of the impact on sales and costs (figure 1) – and also in terms of its contribution to increasing the value of the company. Compared with IT’s potential to increase the profitability of business processes, assure revenues and increase sales, the cost savings achievable within IT have relatively little impact. Generally speaking, depending on the sector, enterprises reckon on IT costs of around 1 – 7% of sales (see figure 2). Saving 20 percent of these costs could mean reductions representing 0.2 to 1.4% of sales. If the IT budget is large enough, this could well mean considerable cost savings.

In contrast to this, again depending on the sector, total business costs amount to an average of around 90 percent of sales. Using IT to specifically increase value in the area can have a positive effect, for example through faster order-to-dispatch times, higher quality, stronger customer bonding and ‘more intelligent’ product design. Rather than focusing on lowering IT costs, enterprises should make efforts to implement their IT so effectively – and at the same time of course so efficiently – that they achieve the greatest possible effect on their operations – by reducing business process costs, assuring revenues and increasing sales.

Leading enterprises are already using IT with immense success to create value. And these are not only enterprises in IT-oriented sectors such as the automotive industry,

telecommunications, power industry, banks and insurance or manufacturing companies that have traditionally based a high proportion of their business processes on value creation through IT. A number of leading enterprises from sectors that appear to be less IT-oriented, such as manufacturers of agricultural machinery or office furniture are also enjoying a competitive edge thanks to the sales-boosting use of IT. Furthermore, rapid technological progress and market developments will make it hard for the competitors of these companies to catch up.

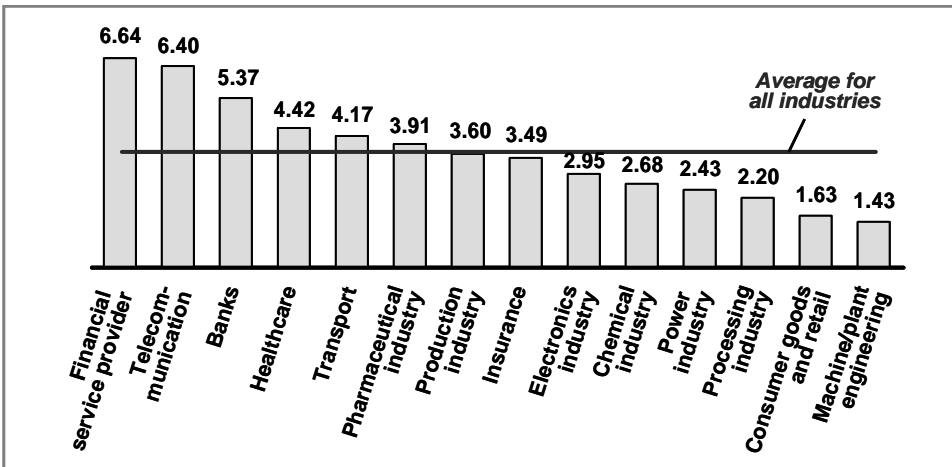


Figure 2: IT expenses/IT budget as a percentage of sales in 2002;

Source: Meta Group, 2002

This book presents strategies used by enterprises that efficiently utilize the value potential of IT for their organization. It offers IT executives – be it at group, unit or senior management level – concrete assistance with implementing strategic IT management in their respective organizations.