# Part A Enhancing Value – IT as a Value Driver for the Company

CRM, CAD, ERP[1] – the world of IT is teeming with acronyms that promise considerable benefits for business operations. Yet managers themselves are usually only sure of one thing: these terms all involve huge costs. How can they find out which IT investments are worth the expense? This is one of the most widely-debated issues at congresses and in the IT press and also between IT managers and senior executives. And the answer is seductively simple: those IT investments that make the greatest contribution towards implementing the goals of the company at the lowest possible cost are the ones that make most economic sense. But which investments are we talking about?

Future-oriented IT investments must be closely aligned to the goals of corporate strategy. Therefore the job of *IT strategy* is to identify innovative projects that will sustain the competitiveness of the company and increase its value down the line. Using IT in this sense as an *enabler for business* means:

- *Reducing costs for the company* (but not only IT costs) – e.g. by reducing inventories thanks to optimized production planning (for example in the automotive industry), greater transparency and better logistics planning –
- *Strengthening revenues* – e.g. by enhancing customer bonding through CRM thanks to more information about the customer and closer contact with them or through better supply chain management through marketplaces – or even
- *Increasing sales* – e.g. through new business fields such as information services or higher customer benefits through additional product features and supplementary services to the product and ‘intelligent products’, which bond the product user more closely and permanently to the company and reinforce the customer’s inhibitions to switch to other suppliers.

Today most enterprises are well equipped to use IT as an enabler for their operations. Motivated by fears of all DOS-based computers and other systems threatening to crash if not properly prepared for the Y2K crisis at the turn of the millennium, enterprises made enormous investments in IT systems, which in many cases meant replacing legacy applications with ERP systems. The investments made to keep operations up and running were successful – either because the real danger was overestimated or because equipping oneself with new, higher capacity EDP systems (or modifying existing IT systems) pre-

[1] IT terms are explained in the glossary.

vented the 'year 2000' disaster from happening: no major shutdowns were reported in the new year (but indeed some smaller ones were). But what counts more is that most enterprises entered the new millennium with high-powered, future-oriented IT systems – perfect conditions for innovative projects. Even the collapse of the Internet hype did not quell the enthusiasm of most enterprises for considering future-compliant IT applications to support operations, including web-based services.

A worldwide study carried out by A.T. Kearney and Harris Interactive substantiates the growing significance that leading enterprises attach to IT for the success of their business. 144 senior executives from European and American enterprises with over 500 million US dollar revenues from the five key industries: automotive, telecommunications & high-tech, consumer goods & retail, finance & insurance, and the processing industries were interviewed about their IT priorities for the year 2003. More than 90 percent had invested in IT as an enabler for their business operations. 65 percent of the enterprises that had grown considerably faster than their competitors in the past five years had made investments in IT that are effective and in clear orientation to their corporate goals. These enterprises have consistently implemented IT not only to improve business processes, but also to specifically enhance the effectiveness and efficiency of their relations with both customers and suppliers. Even more astonishing: over 75 percent of these enterprises are striving to use IT to specifically ensure or increase revenues, for example, by implementing CRM tools to improve customer relationships.

Yet not all companies have the premises for utilizing the potential of IT, although most leading companies have created the right conditions over the past few years. In an annual study carried out in association with US magazine Line56, A.T. Kearney ascertained that the number of enterprises developing their IT strategy with a direct reference to corporate strategy rose from 55 percent to 62 percent between 2002 and 2003. These sector-best companies already introduced new technologies in the start-up phase (63 percent) or at an early stage of maturity (55 percent). But there are still a high percentage of enterprises not yet using IT to realize value for the company.

Between focusing on cutting IT costs and focusing on using IT as a value driver, a company can find itself in one of four stages:

- *IT as a cost driver:* In the first stage, IT is regarded as an overhead factor and thus caught in the classical 'overhead trap': reducing costs is of prime importance. The only measures taken are those that can contribute to a reduction of IT spending. In order to lower IT operation and maintenance costs, for example, the applications are harmonized and the infrastructure is standardized and slimmed down (*cf.* Part 3, Chapter 1, 'IT Optimization'). Although this kind of optimizing the existing IT system holds some potential benefit within the IT department, it does not support the long-term strategic goals of the company. IT is restricted to the basic minimum and projects for new or improved IT solutions are radically cut back. Sooner or later the

IT budget is spent almost exclusively on operating and maintaining IT, which at some point will have to be reduced as well.

- *Optimize business processes with IT*: Enterprises that use IT to improve their business processes, reduce business process costs and improve process quality are an essential step further. In this stage, IT indirectly supports corporate strategy, but the value enhancing potential of IT is not being used to full capacity. However, in order to exploit the potential of IT on business process level, the organizational structures and processes in the company are changed. Furthermore, IT can be used to realize rapid synergies in business processes during merger integration.
- *Ensure and increase sales with IT*: Added value is captured by enterprises that weigh IT costs against the direct IT benefits that can be expected for business. In this stage, IT directly enhances customer orientation, the effectiveness of the revenue side and the integration of the company across the added value chain in direct alignment with corporate strategy. In merger integration, IT not only helps realize business process synergies, but also opens up market-side synergies.
- *Develop new business fields with IT*: In the highest stage of development, IT itself becomes a business carrier, either through ‘IT intelligence’ in existing products, which creates new or improved product features (e.g. the self-diagnosis and remote-control maintenance of technically complex capital goods with rotating work locations), or as IT-driven services, which supplement the use of the existing product by the user (e.g. computing up-to-the-minute information about traffic jams in the navigation system of a car). This can lead to new business fields for existing products. Suitable innovative IT projects are identified in the scope of the systematic development of an IT strategy. The introduction of new IT systems is anchored in the company with innovative concepts such as BOT (see Part 1, Chapter 2, ‘Enterprise Transformation’) to realize the greatest possible IT benefit. An IT integration platform enables new business fields from mergers and takeovers to be exploited.

These phases fit together like building blocks: The well-directed use of IT in line with corporate strategy delivers added value for the company through low-cost IT, optimized business processes and increased sales, by opening up new business fields, and creating value for the customer through improved services or innovative product features, as well as value for the shareholders and stakeholders through increased stock prices thanks to higher sales or better cost management.

However, realizing added value with IT will always be restricted to the extent to which users exploit IT functionalities, i.e. there is more to it than just integrating IT strategy into corporate strategy. Leading enterprises not only modify their IT, they also align the entire company structure (including all the interfaces) to their customers and suppliers as part of a comprehensive *enterprise transformation* process, so that IT can achieve its positive impact on the business processes.

A special role is also played by IT in supporting the external growth strategies of enterprises. When properly implemented, IT has a lot of influence on the short- and medium-term success of mergers in the form of well-directed *IT merger integration,* as well as on the success of disinvestments with *IT disintegration*.