



IT Business™

IT Business Media

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Welcome to IT Business™

*A message from
Steven Taylor and Jim Metzler*

IT Business has a straightforward mission - to provide a platform for discussion and analysis of the successful use of IT to enhance business processes. In carrying out this mission, we are joining forces to address a critical need in our industry – taking the step beyond talking about technology to addressing the impact of current and emerging technologies on business processes.

A few months ago we asked those of you who are members of the Webtorials.Com community to indicate your need for technical information versus information about the business use of IT on a scale of 1 to 5. Roughly 70% of you ranked your need for business-related information as either a 4 or 5 out of 5. And, realistically, there aren't many sources (or any) sources of information dedicated to the business use of IT. Until now.

IT Business is our answer to this need with three distinct products. The IT Business Newsletter, of which this is the inaugural edition, is setting the stage and laying some groundwork for IT Business. In future newsletters we'll be adding expert commentary on a range of subjects by range of world-class analysts.

The multi-vendor, web-based IT Business Virtual Trade Show comprises the second product that you'll be hearing about. For some of you, there will be an opportunity to participate in a real-time setting. But, again basing our decision on what you've requested via Webtorials.Com, the primary setting will be both streaming and downloadable multimedia presentations for your viewing at your convenience. Finally, a third product is an ongoing series of targeted special reports authored by best-of-breed analysts. You'll see both of these types of products coming your way in early 2003.

For now, this initial newsletter features an article by Jim that sets the tone for the entire IT Business initiative. In this article, Jim takes a look at the need for refocusing our attention to address the business aspect of IT and proposed a model for approaching this task. Then Steve kicks off the first IMNVHO (In my not very humble opinion) column with a look at business cases from the tactical versus strategic perspective.

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The Business of IT

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Introduction

Many industry pundits advocate an approach, called the IT Utility Model, in which IT is positioned inside of a company as a utility, similar to electricity or water utility companies. Other pundits advocate the Value-Add Model, in which IT is a strategic asset that must be leveraged for business success.

It would be relatively easy for an IT organization to be successful if it were mandated to implement either the IT Utility Model or the Value-Add Model. However, the Business of IT demands that the IT organization must simultaneously operate as a utility, as well as provide incremental functionality that helps the company to better compete in the marketplace. This article will develop a model that discusses the key components of the business of IT, and will provide an example to illustrate each component. The article will also focus on how IT organizations continually demonstrate incremental business value.

The Business of IT Model

There are four key components of the business of the IT organization. Those components are to:

1. Manage the expectations of the stakeholders of the IT organization
2. Manage and allocate the internal and external personnel resources that are used to provide IT services
3. Manage the vendors that supply the components used to create IT services
4. Manage the technology lifecycle

Throughout this article, the phrase "IT Services" refers to services that are seen by the end users. Examples of IT services are email and voice mail, Internet access, and applications such as Sales Order Entry. The components of these IT services, such as servers, operating systems, routers, Wide Area Network links, are not considered IT services.

Margie Lieb, Director, IT Customer Relations, J.D. Edwards & Company is an advocate for this approach to defining IT services. According to Lieb, "We run our IT organization like a business, which means that we need to relate to our customers (employees) in the manner in which they see themselves consuming our services. So components like servers, operating systems, routers and the like are not "products" that the general IT customer can discreetly discern so we do not view those components as services. When we conduct our annual IT

customer (all employees worldwide) satisfaction survey, we ask questions regarding IT services that are seen by our end users, not the discreet components of our services like servers, operating systems, etc."

However, Mark Endry, CIO of J.D. Edwards & Company, believes that it is important to identify the customers for the IT groups that provide the component pieces. According to Endry, "Servers, operating systems, routers, and other components should be managed as business lines internal to IT. The database services group should operate as if the application development group is a customer. Applying sound business practices to these components ensures the people building external IT services such as Sales Order Entry can rely on their performance."

Managing the Expectations of the Stakeholders of the IT Organization

The stakeholders of the IT function typically include a company's business and functional managers, some of its key customers and partners, as well as the company's Board of Directors. These stakeholders share two key attributes. One attribute is that a stakeholder's success is significantly affected by the success or failure of the IT func-

tion. A second characteristic is that a stakeholder is in a position to have an impact on the IT function, often by influencing the level of funding that the IT organization receives.

As mentioned, an IT function must continually provide to its stakeholders some proof of its competency and at the same time demonstrate incremental business value. In order to show competency, IT organizations must prove that they are providing IT services that:

1. Satisfy the requirements of the majority of business and functional managers
2. Have performance levels that enable the company's business requirements
3. Have a cost structure that is appropriate for the company's business requirements

In order to show competence, many IT organizations need some form of outside validation. One technique that is often used to show competency is to benchmark all or a portion of an IT operation against a similar company's IT operation. According to Lieb, "We participate in extensive benchmarking forums and organizations as a mechanism to compare our cost structure with "like" services. We balance that data with conducting an annual, IT satisfaction survey to all of our worldwide customers (employees). We continuously challenge ourselves to improve our processes to enhance our service offerings to our customers."

Peter Brown, Director of Architecture and Cross Border Services for PricewaterhouseCoopers' internal IT organization believes that showing competency is tightly linked with showing results. According to Brown, "An IT organization must consistently demonstrate operational results that business leaders identify with. At one level a business leader assumes a competent group in his/her IT organization, but isn't interested in measuring their compe-

tence per se. He/she is instead interested in results. If the IT group delivers expected results they are assumed competent; if the results are not there they are assumed incompetent."

Agreeing with Brown, Lieb commented, "Our IT organization is challenged with each engagement with our customers (business/functional managers) to demonstrate the competency of IT. We have mitigated this continuous challenge by doing sever-

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al things. For example, four years ago, we introduced an IT Account Management group with an IT Account Manager strategically aligned with executive business owners. We started with just a few organizations and now have Account Managers aligned with all organizations. The Account Managers are accountable to work with the strategic business owners to document and communicate customer business requirements into IT, as well as promote and leverage our IT technologies with the business.”

Larry Jarvis of Fidelity also believes that IT organizations must link with the company’s business and functional managers. According to Jarvis, “Within our organization, success and competency are communicated back to our business users through a combination of techniques:

1. Conducting annual joint planning sessions with business users.
2. Publishing a document monthly that shows project status vs. plan.
3. Documenting and tracking all business requests and problems coming into the IT organization through to completion in a closed-looped process. Throughout the process, business users can view status of requests, request medications, and are automatically notified upon completion.


Publishing on a monthly basis service performance and availability vs. mutually agreed to SLAs.”

In order to demonstrate that they are providing incremental value, IT organizations must continually find ways to delight the company’s business and functional managers. Typically this involves deploying some new service or service delivery methodology that better enables the company to achieve a business goal, such as reducing the company’s time to market.

According to Endry, “In a technology company, the CIO should ensure that

senior managers are the most effective users of IT services. Extra steps taken to setup broadband access and wireless LANs in senior executive homes helps remove obstacles ensuring incorporation of the technologies into the way the managers conduct business. Routine use of the technology in private and business life helps them see the possibilities for further business improvement through the deployment of technology.”

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Managing the Internal and External Personnel Resources used to Provide IT services

The vast majority of IT organizations do a notably better job proactively managing technology than they do proactively managing people. For example, it is far more common for an IT organization to have plans for how it will evolve the technologies that it uses, than to either have plans for how it will evolve the skill set of the people in the IT organization, or how it will use outsourcing vendors.

The first step in managing the internal and external personnel resources used to provide IT services is to perform a skills assessment of the IT organization. When an IT organization is performing a skills analysis they clearly need to identify gaps in technological skills. However, IT organizations also need to identify gaps in areas such as project management and vendor management.

One goal of the skills assessment is to identify gaps between the skills that the IT organization currently needs and the skills that it currently possesses. A second goal of the skills assessment is to identify the gaps that will exist in the future, between the skills that the IT organization is likely to have at that time and the skills that it is likely to need at that time.

IT organizations have used outsourcing services for the last 15 years, often with mixed results. However, few IT organizations will be able to meet the

expectations of its stakeholders without outsourcing at least some functionality. Hence, the question is not should an IT organization use outsourcing vendors. A better question is what does it take for an organization to outsource IT functionality successfully?

Brown linked successful outsourcing with the establishment of the correct evaluation criteria and metrics. He stated that "Outsourcing success is truly measured in the eyes of the beholder. By this I mean that success is a function of what goals or objectives you were trying to solve when the outsourcing was initiated. If the organization outsourced to have quicker access to new technology then the results should not be measured in cost dimensions and vice versa. The IT organization must assume to role of spokes person when measuring outsourcing success because they are the ones who outsourced for a given reason."

Brown added that "If one is planning to outsource the he must be prepared to determine, before outsourcing, what metrics will be used on a daily, weekly basis to determine success of the outsourced operation. It is critical to have metrics in place and to understand your operation well before outsourcing because if you don't there is no way to determine the success of the outsourcing venture."

Part of the conventional wisdom (The CW) in our industry is that if an IT organization has the skills to perform a function itself, it should. Otherwise it should outsource that functionality. That conventional wisdom is often wrong. In order to increase the chance

that it will be successful with outsourcing, an IT organization needs to answer the following questions:

1. What functions does the organization want to perform using internal resources?
2. What functions does the organization want a third party to perform?
3. How will the organizations perform any systems and/or process integration between what gets performed internally and what gets performed by a third party?
4. How will the organization best manage the third party parties?

The first two of the preceding questions are best answered after the IT organization has completed a skills assessment. Questions three and four address the major weakness in The CW. In particular, The CW implicitly assumes that no skills are required to manage an outsourcing relationship. Experience has shown that it takes a commitment of IT resources in order to be successful with outsourcing. Experience has also shown that the skill set required to manage outsourcing vendors is somewhat different than the skill set that would have been required to perform the function internally.

One company that understands the difficulty in managing outsourcing suppliers is Cisco. Tim Merrifield, the Director of Corporate Development within Cisco's internal IT organization, commented on Cisco's use of outsourcing. "Our approach to determining what to outsource, when to make the shift and how to manage the func-

tions are based on Geoffrey Moore's model of "core vs. context" with our own spin on it. Our additions are to add another layer to this decision, that of "mission critical" and "non-mission critical". Once we have stepped through the process, have determined that we have a candidate for outsourcing, we carefully determine if we have the appropriate management skill sets to manage the relationships, then evaluate the costs, etc. We have successfully done this with both infrastructure and application development activities and have been quite successful to date."

Managing the Vendors that Supply the Components used to Create IT Services

The preceding section of this article talked in part about managing outsourcing suppliers. This section will discuss managing the vendors that supply the component parts of IT services, such as servers, operating systems, packaged software, and Wide Area Network (WAN) links.

Many IT organizations talk about having a multi-vendor strategy for acquiring the component parts of an IT service. Traditionally, the goals of having a multi-vendor strategy are to keep sufficient pressure on the vendors to ensure that the IT organization receives:

- 1. Excellent pricing
- 2. High levels of service quality

3. Access to new technologies and services

In addition, some companies have begun to develop a multi-vendor strategy due to their concern that one or more of their existing suppliers may fail in the marketplace.

However, having two suppliers is not necessarily the same thing as having a multi-vendor strategy. In order to have a true multi-vendor

strategy, there has to be the real possibility that the IT organization will make a sizable shift from one supplier to the other.

To exemplify this, consider a company that uses two suppliers for its WAN links. In order to resolve whether or not this company has a multi-vendor strategy, it is necessary to determine if it is acceptable, from each of the following perspectives, to

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move a significant amount of its annual spend from one vendor to another.

1. A Business Perspective

An example of a business impediment to shifting traffic between suppliers is that the company does a lot of business with one of the suppliers and that the company's business managers would strongly resist any change that could potentially disrupt that relationship.

2. A Contractual Perspective

In most cases, the IT organization will have contracts with both of its WAN suppliers that specify a Minimum Annual Revenue Commitment (MARC). If there is not a sizable gap between what the IT organization is currently spending with one or more of the WAN suppliers and the respective MARC, then the IT organization will not be able to switch much traffic between suppliers without violating a contract.

3. An IT Perspective

One possible barrier to shifting traffic is that the IT organization does not have the resources to support this without significantly impacting other projects. Another barrier would exist if the IT organization does the majority of its business with one of the two suppliers. As such, it does not have a lot of experience with the second supplier, and so shifting a sizable amount of traffic to that second supplier is risky.

The Cisco IT organization actively deploys both multi-vendor and strate-

gic partner procurement strategies. According to Merrifield, "While multi-vendor strategies are a hedge on the risk one or two players may pose, strategic vendors allow for increased support & feedback relationships, accountability, technology sharing and cross consulting that may be hard to achieve through strictly business to business deals. Cisco prefers to be a strategic vendor to its customers and IT executes the same

methodology to insure long term success and to demonstrate how the process may work."

Managing the Technology Lifecycle

On an almost daily basis, IT professionals are bombarded with stories about emerging technologies and how one or more companies have deployed this technology in ways that have helped it to either show compe-

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tency or add value. Regrettably a high percentage of these emerging technologies fail to do well in the marketplace. Given this, IT organizations need criteria, such as the ones listed below, that they can use to assess the likely success of any new technology. Note that the more positive the responses are to each of the following questions, the more likely it is that the technology will be successful in the marketplace.

1. Does the technology solve a problem people are willing to spend money to solve?
2. Is it the first solution to the problem, or if not, is it notably better than the existing solutions?
3. Is the level of technical sophistication appropriate for the problem being solved?
4. Will the technology be suitable for production networks in the near term?
5. Is the technology relative easy to implement?
6. Are all or most of the technologies that need to be in place in order to support this technology currently widely deployed?

According to Merrifield, Cisco's IT technology evolution is fostered both within sanctioned teams set up to investigate, prototype and evolve our infrastructure as well as within decentralized application teams. Merrifield believes that "This approach supports both generic technologies and trends in the industry and allows for best of breed opportunities within vertical business areas. By having a clearly

articulated enterprise architecture and set of standards that we live by, the identification and evaluation of technology is supported. We also are an organization that takes risks. Intelligent risk is encouraged and necessary to continue to support the productivity goals we have established and to continue to meet the ever changing and raising demands placed on IT for innovation and business value."

Showing Value

IT organizations are on a treadmill to continually show value to the company. Endry and Brown suggested some communications techniques that make this easier on an ongoing basis. Endry suggested that "IT organizations need to establish a set of metrics and goals that end users can understand. The metrics and goals should be mapped to company objectives and strategies. Regular reporting on progress toward those goals is a critical component of an IT organization's communication plan. Quiet, flawless delivery of services is only half the battle since nobody notices that."

Brown suggested that "Even more important than demonstrating competence is consistently presenting business oriented data to the leaders of the organization such that the IT group is seen as a key element in the daily functioning of the organization. By business oriented data I mean monthly reports written in English, not in IT acronyms and terms that the business leader can not identify with." IT organizations tend to go for the "big Bang" reporting approach. They are never heard from until a

project is completed or there is a systems disaster. A far more effective approach is to have a monthly report that is written in business language that is there consistently through good and bad times. At PwC we introduced a monthly 1 page report that reported service status and highlighted key spending information. This approach helps the IT organization to be seen as a member of the team and not as outsiders"

Lieb agreed with the need for effective communications, but also stressed the need to be flexible to varying business requirements. She said that "Within J.D. Edwards, we have established, documented and published baseline service levels for all of our IT services. We also develop special service level agreements with departments that require a higher level of service from our standard, funded offering."

One company that has continually shown the value of IT is Cisco. According to Merrifield, John Chambers has said that IT at Cisco is one of the top 3 -5 reasons for Cisco's success. "IT within Cisco is viewed as an enabler and driver of productivity and business process, and its this view of our organization as an asset center vs. a cost center that has challenged us to better ourselves and deliver greater benefit to our internal and external customers. This view didn't happen over night, it was grown from within the company from its early days, predominately based on two factors; its IT leadership and the phenomenal growth

Cisco has experienced over the last 10 years. Our CIO, deployed and evolved a “customer funded IT model” that enables each business unit/function to invest in IT based on value returned. Coupled with our “business partnership” perspectives in IT, we have been able to significantly penetrate the business client’ operations and identify areas of opportunity, calculated risk and need for scalability. IT has clearly risen to the challenge.”

Mike Crowley, CIO of Avaya had some advice for some specific areas of technology that can be leveraged to show value. Mike noted that “In order to truly show value, IT organizations need to put more attention on business applications and their integration with communications applications. One example of this would be a front-end voice application like unified communications integrated with a CRM application to more fully empower the sales force. Another example would be a multimedia contact center that integrates communications, such as email, web chat, voice and fax, with enterprise systems and databases for more efficient customer interactions and faster, more complete service.

Summary

On an ever increasing basis, business success relates directly to the involvement and success of the Information Technology (IT) function. In particular, a well run IT function is a key enabler allowing companies to deal with some of their major chal-

lenges, such as enhancing customer loyalty, increasing a company’s ability to respond quickly and flexibly to marketplace challenges, as well as managing mergers and acquisitions.

However, to date many IT organizations have focused primarily on the management of the technology life-cycle. They have not spent anywhere near as much time and resources on the other three components of the Business of IT Model: managing the

expectations of the stakeholders of the IT organization, managing and allocating the internal and external personnel resources that are used to provide IT services, and managing the vendors that supply the components used to create IT services.

This needs to change to ensure both business success as well as the success of IT professionals. ■



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IMHO *In My Humble Opinion*

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Rol: Time for Tactics or Strategies?

In recent years, return on investment (Rol) has become a hot topic in our marketplace. This is only natural since the days of having unlimited telecommunications budgets for cool new technologies simply because they're cool new technologies are long gone. But in some ways, Rol has almost been overused and, as such, has lost some of its impact. Additionally, Rol has become a code word in some circles for "don't spend money" and "quick profits."

By necessity, this leads to a discussion of tactics versus strategies. For quite a while, Jim Metzler and I have been defining "tactical IT" as the primary emphasis of the IT organization being to provide only a basic set of services at the lowest possible unit cost. In many ways, this is the internal IT utility model. On the other hand, "strategic IT" is the case where the IT organization also has a strong mandate to help the business achieve its goals. In today's world, tactical IT organizations have a short-lived, yet useful, cost-cutting focus. But strategic IT organizations will help redefine and reshape the entire business processes for their businesses.

So what does this mean for Rol discussions and redefining what an Rol means?

There are two distinct types of Rols. A tactical Rol is the reactive type of Rol that has been much discussed over the past couple of years. You look at what you're doing now and how much it costs for a baseline set of functions. Then you look at what the proposed new method costs for replicating these functions, what the implementation costs are, and what the new costs are. If the new costs are significantly less than the existing costs, you get a good Rol and you move ahead with your project.

This is a good type of Rol analysis. There's nothing wrong with saving money. Saving money is good, and you should do so every time you get the opportunity. And, in times of a less-than-booming economy, our first reaction is to hunker down, put up the shields, and try to ride it out by not spending money unless there's an overwhelming and immediate financial payback.

But consider this. In the opinion of many folks, it's technology that contributed significantly to our current economic conditions. Regardless of whether it's true that technology caused the problems, it's a given that it's technology – used appropriately – that's going to get us out of the doldrums and reenergize the economy by redefining our business processes.

So now it's time to expand your view of Rol analyses from a tactical perspective only to include a strategic perspective as well. This means looking at IT

investment not only as a way of doing what you're currently doing less expensively, but also as adding mission critical functions that could change the fundamental operations of your business. This introduction of new enabling technology makes functions and capabilities that were previously unaffordable immediately possible. Thus, in many cases, the tremendous power of IT investments today will be most evident in strategic Rol analyses. In this case, you look at the impact of an investment on the overall business processes. For example, in the VoIP world, if you are transitioning from a tactical "call center" to a strategic "contact center," will this facilitate your customer retention and customer loyalty? If so, what is the economic impact? If you use a distributed call center that allows agents to work from home – wherever that home may be – what is the impact on your employee retention? These are critical questions that go beyond the "IT as a Utility" model. They're also typical of the types of questions that we'll be addressing as parts of the entire IT Business initiative.

Admittedly, some of these factors are difficult to quantify, but they are critical to the success of your business in the coming months and years. Your competitors will be making these strategic moves, and, in order to avoid being left behind, you need to be moving as well. And IT Business will be here to help. ■

Coming in the January Issue



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- ▶ **Enterprise View: "Implementing Effective Portals"**
*by Peter Brown, Global IT Director,
PricewaterhouseCoopers*

- ▶ **Secure View: "Biodiversity in Security Practices"**
*by Gary Kessler, Associate Professor,
Champlain College / President, Gary Kessler Associates*

- ▶ **Voice View: "IP Telephony: Then and Now"**
*by Kevin Lopez, Manager of Telecommunications,
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*by Howard Goldstein, President,
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*by Sharon Black, Telecommunications Attorney,
Law Offices of S.K. Black*

- ▶ **Plus more expert commentary by Jim Metzler
and Steven Taylor, Co-founders of IT Business**

