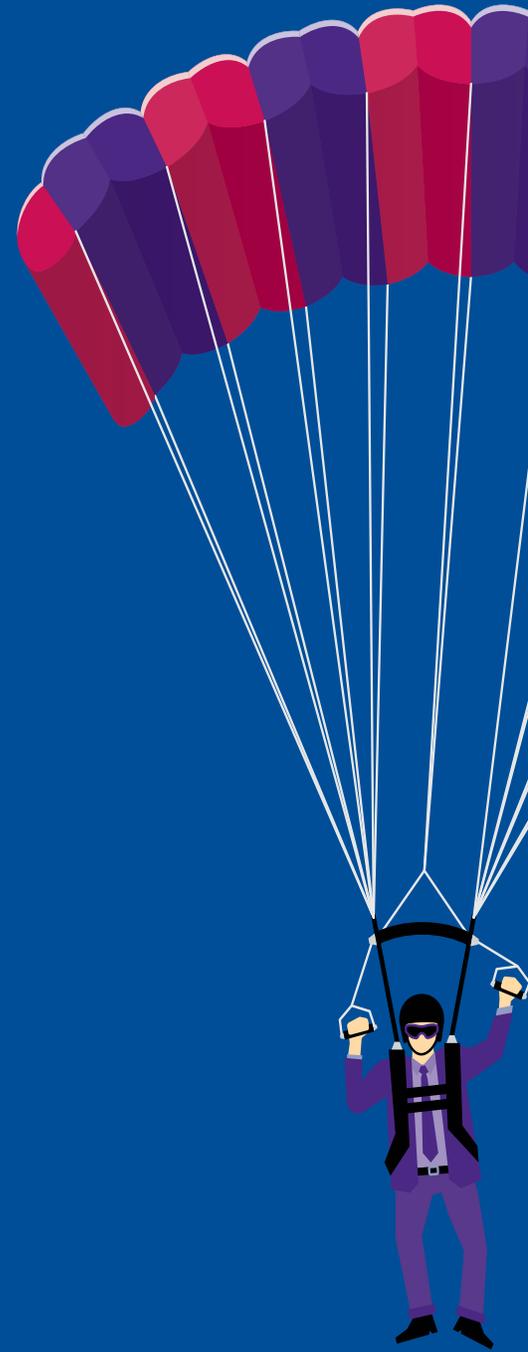




IT value management

No more crash and burn
KPMG CIO Advisory



www.kpmg.com/us/CIOinsights



Introduction

Ever notice that many so-called “IT value” efforts crash on takeoff? We see this scenario all too often. What starts out with good intentions and significant technology talent quickly collapses as the approach is often oversimplified, undertaken with a high degree of internal focus, and lacking the integration and business acuity required to truly make a difference.

The reality is that becoming IT value focused is not an event, it’s a journey that requires a cultural change by both IT and the business and a lot of hard work. A successful transformation demands a disciplined approach with program management, dedicated resources, and sufficient funding.

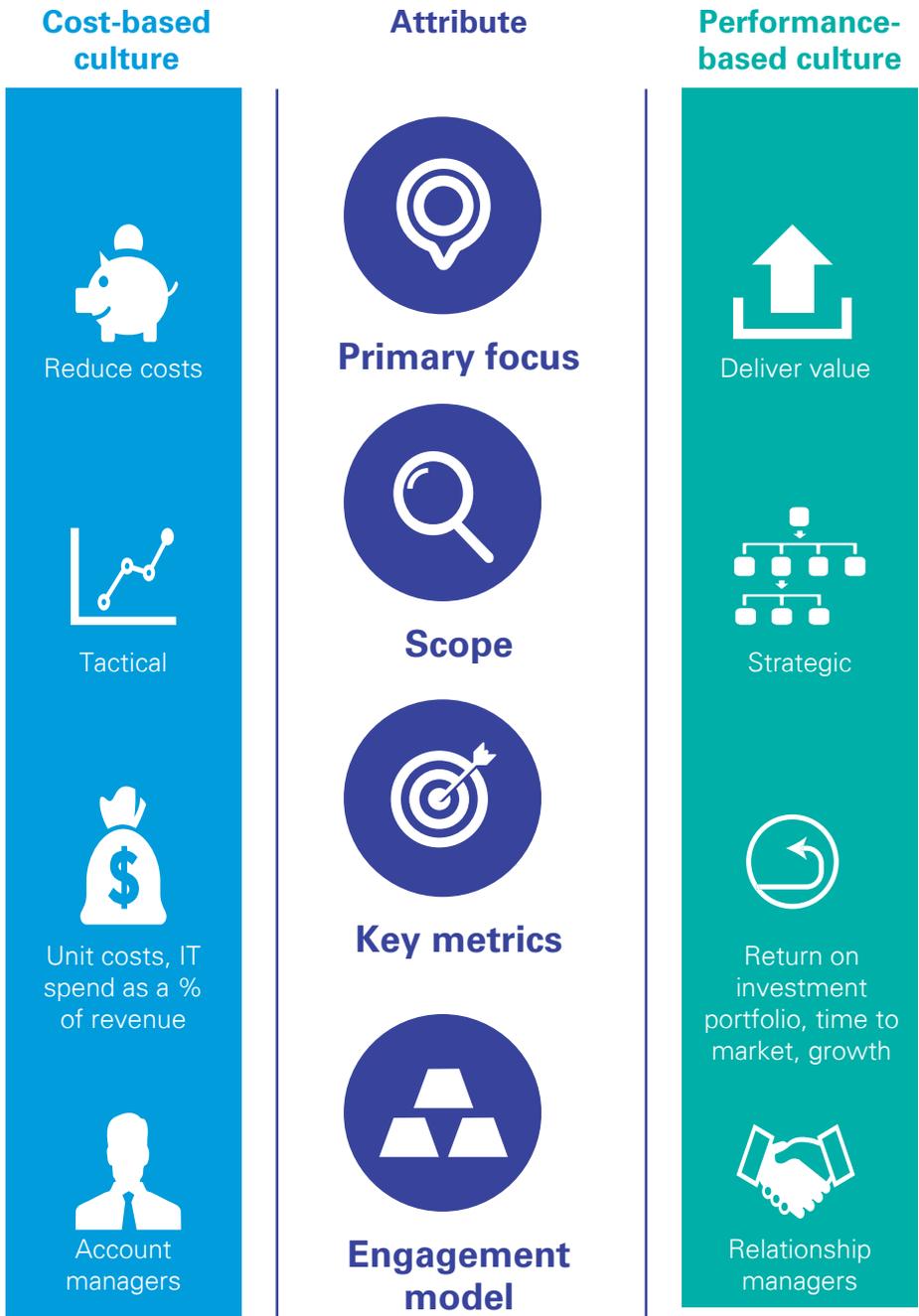
No one said IT was easy

Today’s leading IT organizations are about as lean as possible. While demand for technology, especially applications, hosting and storage, has exponentially increased, CIOs have had to slash costs—often cutting beyond the fat and down to the bone—reducing capabilities, speed, and business enablement. At the same time, they’ve had to deal with ever increasing industry-driven regulatory and compliance issues. New service delivery models enabled by mobility, digital backbones, and the cloud have contributed to loss of control, as others outside of IT can more easily provision resources to their liking, without capital expenditure.

For many IT executives, this has led to an often frustrating conversation focused on the cost of technology rather than the differentiated value IT delivers. Even with good practices like tiered services published in a catalog, in many cases, the technology value perception has diminished to that of a reticent IT supplier with long lead times and cookie-cutter solutions that would rather say “no” than “yes.” Instead of helping IT consumers answer “what if” scenarios through the lens of technology, IT leaders are often trying to defend the value of the “what is” investment portfolio.

We believe value starts with a fact-based conversation on the total cost and effectiveness of the entire IT portfolio. Applying the principles of Technology Business Management (TBM) can change the perception of IT to that of a dynamic partner by changing the dialogue from one about commoditized unit costs to one of strategic growth, investments, and market capture. It happens when we make the shift from a cost-based culture to a performance-based culture.

Figure 1: Cost-based versus performance-based culture



My VP of Infrastructure was using Information Technology Infrastructure Library (ITIL) to improve his processes. He needed ITIL to meet his goals. But I needed a way to make broader decisions about my investment portfolio. I needed to sit down, armed with facts, and have discussions with my business partners about where we were spending our money, what value we were getting, and how to get more value at our current investment levels. Even though our processes and data were far from perfect, I found I could get there very quickly with TBM.

– Larry Godec, CIO,  First American

This is the tough stuff

In a perfect world, TBM should seem effortless; a seamless dialogue between the demand and supply side of the business, maximizing the return on the IT services investment. But getting it to that point requires a great deal of introspection by those who determine IT value and those that provide technology solutions. Steps like publishing a service catalog, building cost models, and sharing IT performance information with stakeholders are just table stakes in running a service oriented technology business. To truly partner in delivering meaningful results against the corporate business strategy, IT must become a business within a business, able to meet the demands of the enterprise in a quick, dynamic, and value-for-cost arrangement.

What does running IT like a business really mean?

We have all heard this mantra before. But like any business, IT will fail if the financials are the only thing you look at. As the CEO of their IT business, the CIO must be able to pivot upon the needs of the market, anticipate and deliver against new trends, and be insightful enough to retire or shutdown assets that are no longer performing.



Running IT like a business is not a new concept, but actually applying the principles and making the change stick is a challenge. Like any other business, success can't be measured only by looking at costs. Delivering reliable, secure, competitively priced, and relevant tech solutions are table stakes for most IT shops. TBM is a way to fulfill the promise of running a high-quality professional services organization that is actively engaged with customers, invested in quality supplier relationships, concerned about risk, compliance, a champion of governance, and a credible source for what's possible.

– Jason Byrd, U.S. Lead, KPMG
Technology Business Management
Practice



I think leading organizations are seeing beyond simply trying to expose cost and unit rates, and are instead seeking to provide insights into the real value these technology investments are delivering. We are increasingly trying to find new ways to be the supplier of choice for our customers which means speaking their language and providing relevant services at market competitive prices. We have built technology portfolios mapped to our service catalogue that the business consume, like field sales and inventory management, and align our measures and service levels according to how critical these services are to the business.

– VP of IT Services, Global Consumer
Products Company



Like other large-scale transformation processes and projects, many IT value efforts fail to live up to their expectations for the usual reasons:

- Siloed approach constrained to running IT more efficiently
- Poorly defined roadmap and specific objectives targeted at commonly accepted business outcomes
- Non-existent or poorly articulated value proposition
- Speaking a language others don't understand
- Misapplying or not properly leveraging benchmarking data
- Lack of executive sponsorship
- Neglecting or underestimating the impact of cultural and change management

In many ways, TBM is about IT learning business acumen because, as one CIO remarked, "IT needs to learn business because the business is not going to learn IT." This is essential if IT is going to speak, measure, and deliver value because value is ultimately expressed by business outcomes like revenue growth, market share, gross margins, and customer satisfaction.

Unfortunately, many IT value initiatives start and end with the assumption that the awareness of services and associated costs are enough. But the IT groups behind these initiatives often lack the knowledge of how they stack up to others. They don't consider how desirable or competitive their services are. Nor have they created a preference and conviction in the minds of their internal clients. Aftermarket customer service and loyalty are often not even considered. By stopping at awareness, they have neglected most of the processes that get free-market buyers to purchase. This leads to frustrated IT organizations, unhappy internal clients, and a reason to look elsewhere for IT services.

One of the first things the new CIO of the IT shared services group of a F50 healthcare company did was to meet with each of the business unit leaders and tell them he knew that just about everything they got from IT could be found elsewhere and for him to retain their business he had to be competitive with outside alternatives. He asked for their business for another year to give him time to improve IT's competitiveness.

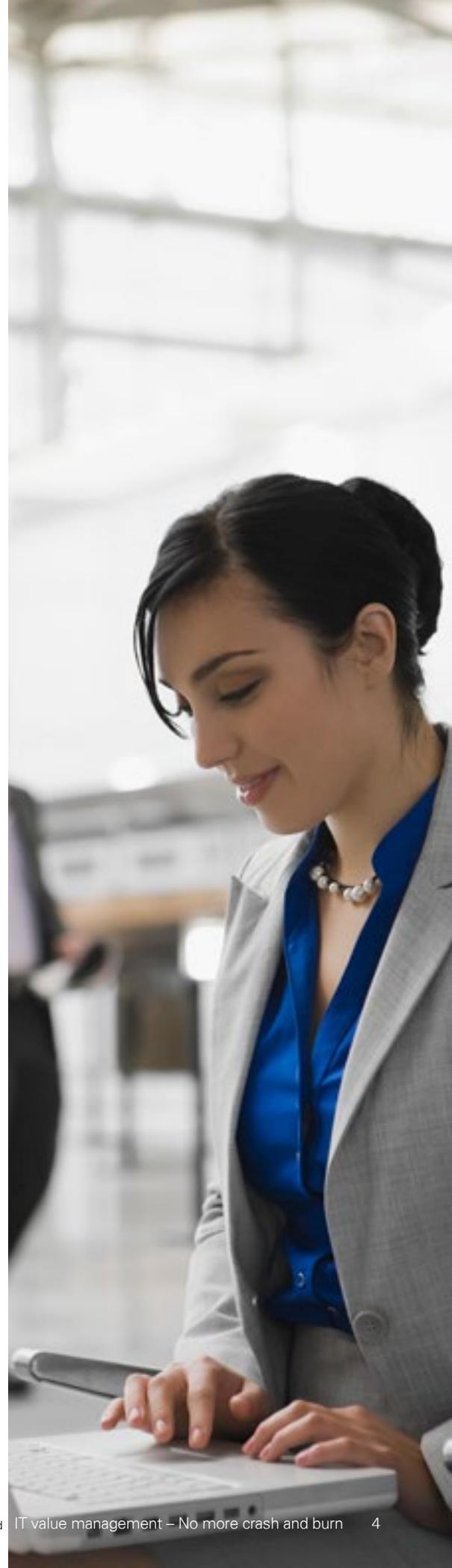
"The good news for CIOs—they still control about 60 percent of the average IT budget in a corporation. The bad news—they think they control 80 percent," according to a survey of member-based advisory firm CEB, which surveyed 165 organizations representing more than £29 billion in IT spending in Europe and the US.¹ We are seeing an increasing amount of the deemed strategic technology budgets and decisions moving away from IT to other stakeholders, such as business owned product development, engineering, and marketing, as social, mobile, analytics, digital experiences become more mission critical. Mark Benioff, CEO of Salesforce.com recently remarked that "The chief marketing officer (CMO) is expected to spend more on technology than the CIO by 2017."

Perhaps one of the most missed but opportune mindsets is misunderstanding the twin imperatives of running IT as a services business: costing hygiene and pricing demand. TBM fully recognizes that to provide value to the customer, internal investment is continuously required to run and transform the IT function. As with any business, investing in efficiencies, quality, risk reduction, and market competitive services are simply the cost of doing business. However, the majority of IT value failures occur because senior leadership identifies these hygiene investments as discretionary spend that should be simply redirected to "higher value" projects.

TBM shifts that mind-set by providing IT executives with a defensible position to clearly delineate the costs of running and improving IT through the pricing under which they charge for their services. For example, an investment in server virtualization would be reflected in a 50 percent decrease in the price of application hosting. All of a sudden another "discretionary" IT capital expense becomes a tangible and understandable concept to the business executive.

Today's CIO delivers a vast array of services from multiple channels including retained resources, managed providers, outsourcers, contractors, and partners. Consumers rarely have transparency into who is delivering the service, at what cost, and to whose benefit. The difference between IT being just another supplier of competitive technology within an ecosystem versus an orchestrator and enabler focused on enterprise demand is what TBM is about.

¹ <http://www.forbes.com/sites/tomgroenfeldt/2013/12/02/40-percent-of-it-spending-is-outside-cio-control/>



“

One of the challenges we encountered prior to TBM was trying to 'align' with the business. We found that alignment was almost impossible as we were often reactive and playing catch-up to changes that had already occurred.

Once we established credibility through transparency for our base services, we needed to approach the business as a partner, in all aspects, from designing, developing, and deploying, to running IT services.

Partnership meant taking on shared risk, delivering relevant content, and embedding higher skilled resources on both sides of the IT-business interface. It meant a major change to how we governed projects and made investment decisions, but the key to success was the collaboration of IT, finance, and the business in building compelling business cases that could stand up to scrutiny.

– Director of IT Business Management, Fortune 500 Financial Services Company

”

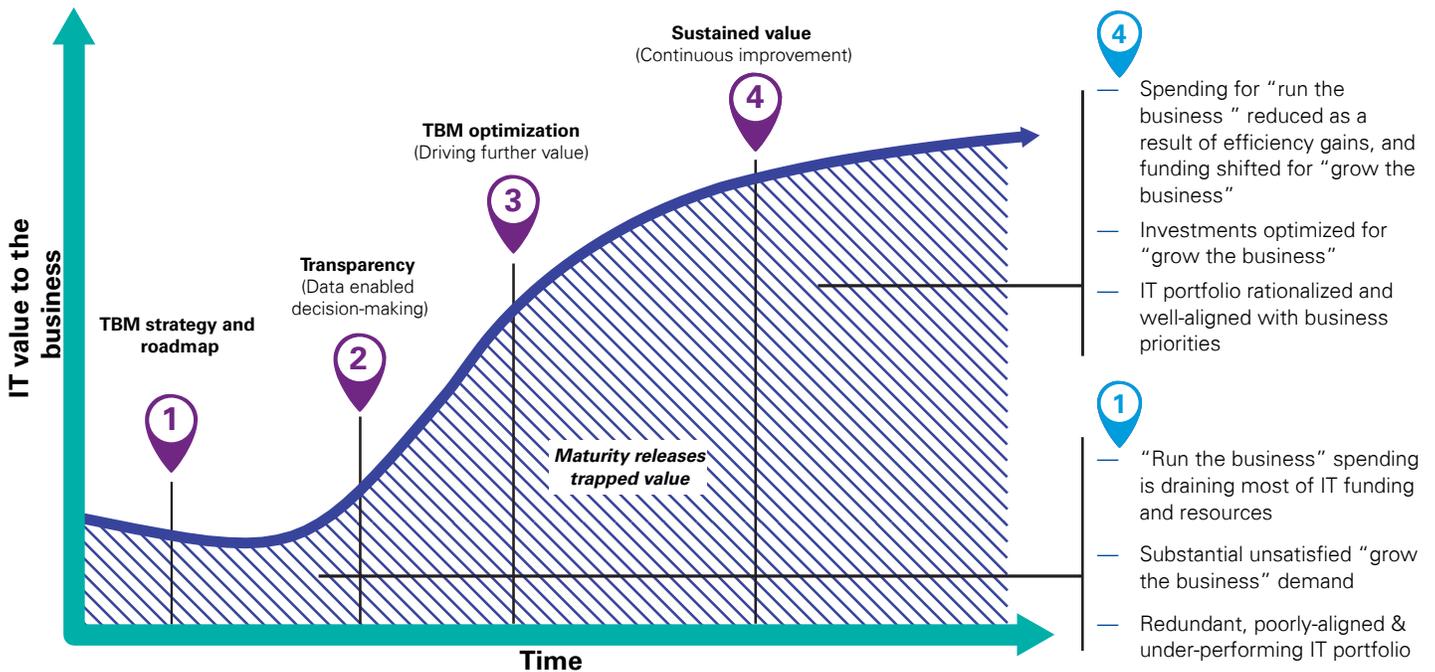


The performance journey

Transformation through TBM requires major organizational and behavioral changes among both the technology organization and the business. It's a disciplined approach with program management, dedicated resources, sufficient funding, and an integrated service catalog. An effective TBM strategy should drive the effort and include a strong vision, objectives, expected outcomes, and metrics that show progress.

The journey to successful TBM can be viewed along four key milestones that continuously unlock the real value potential for both the technology organization and the enterprise.

Figure 2: The TBM sustainable value journey



It's easy to see here the difference between running IT like an internal cost business and the advantages of running technology like a high-performing organization that brings value to the business.

TBM is not for the timid. Leadership, transformational change, funding, and a sustained dialogue about what the business values and prioritizes should figure into any TBM effort.

Our goal is to create outstanding TBM organizations that have successful launches and lasting enterprise transformational change. Please contact us for more information on how we can help you along your TBM journey.

Learn more

For more TBM thought leadership, please see our TBM web page at www.kpmg.com/us/tbm and visit the TBM Council at tbmcouncil.org. We also encourage you to visit www.kpmg.com/us/IT to learn about our other service offerings for the IT function.

About the author



Steve Bates

Principal

CIO Advisory
KPMG LLP

T: +1 720-518-8626

E: sjbates@kpmg.com

Steve is a Principal in KPMG's Advisory Services practice. He has over 20 years of consulting and professional advisory experience in finance and business transformation, operations, cost and profitability improvement, M&A integration, and technology implementation. He has led major client engagements focused on reengineering functional business processes and integrating technology to create sustainable value and results. Steve serves as KPMG's global leader for Technology Business Management (TBM) advising clients on how to recognize the highest return on their technology investments. He also serves as the CIO Advisory leader for the Technology, Media, and Telecommunications (TMT) industry group.

In a perfect world, TBM should seem effortless; a seamless dialogue between the demand and supply side of the business, maximizing the return on the IT services investment. But getting it to that point requires a great deal of introspection by those who determine IT value and those that provide technology solutions. Steps like publishing a service catalog, building cost models, and sharing IT performance information with stakeholders are just table stakes in running a service oriented technology business. To truly partner in delivering meaningful results against the corporate business strategy, IT must become a business within a business, able to meet the demands of the enterprise in a quick, dynamic, and value-for-cost arrangement.

How KPMG can help

KPMG recognizes that today's CIOs face increasingly complex demands and challenges in becoming the strategic technology partner their businesses require.

KPMG's CIO Advisory practice helps CIOs, technology leaders, and business executives harness technology disruption, more effectively manage technology resources to drive agile, improved business performance, enhance strategic position, and improve the strategic value of their technology investments.

The professionals in KPMG's CIO Advisory practice help clients align IT investments and capabilities with business priorities and needs. They help clients define and implement next generation operating models to achieve breakthrough outcomes.

If your IT organization is seeking ways to leverage technology as a source of innovation and competitive growth, KPMG member firms can help. For more information on CIO Advisory's services and capabilities, please visit: www.kpmg.com/us/IT.

Contact us

Jason Byrd

Advisory Managing Director,

CIO Advisory

T: +1 214 840 2685

E: jcbyrd@kpmg.com

www.kpmg.com/us/CIOinsights

www.kpmginfo.com/CIOagenda

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name and logo are registered trademarks or trademarks of KPMG International. NDPPS 606615