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CIO Corner

Tom Costello

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Status Quo— The Silent Killer

Tom Costello, *UpStreme*

There's an old saying in consulting: "Status quo is our greatest competitor." Although this has always been true for consulting, it's now becoming the mantra of internal IT organizations. No change should be good news for an IT team, giving the team a breather to prepare for the coming growth, right? Wrong.

As executives optimize their bottom line by weeding out every last dollar of company waste, IT has become their top target for finding and proving value. IT executives' responses have ranged from taking practical steps—such as optimizing internal IT operations by reducing labor costs, reviewing contracts, and so on—to tackling bigger challenges, such as project management and portfolio control. However, non-IT executives have gone too far and are now asking IT to justify (not simply explain) the business value of every initiative that touches IT.

An even more disturbing trend over the past 18 months has been the requirement that IT create value for the business. Only certain

business models and industries have IT as the core of their value proposition—that is, as a direct contributor to revenue. In most cases, IT acts as a support team for delivering value to the business through key initiatives. However, in today's economy, most firms don't have or won't commit the resources for aggressive growth, so they've fallen into a "status quo" business stance.

So how does IT create value when the business model "in play" isn't designed to do so?

The Business Problem: Actual vs. Potential Growth

You could reasonably argue that an organization only creates or finds value on three levels: through top-line revenue, bottom-line cost, or the less measurable goodwill captured through strong customer relationships and more.

Very few organizations in this economy have been able to achieve real top-line revenue growth, and those that have done so are constantly questioning whether that growth is reliably and predictably sustainable.

Cost reduction offers another way of showing operational improvement to the board, investors, analysts, or owners. So, most organizations have spent the last 18 months cutting costs as a primary means of achieving better numbers (publicly traded and privately held). Most seem to have made better decisions and not cut as deeply (or in the wrong areas) compared to prior economic downturns.

Of course, you can only go so far before the cuts begin to negatively impact current operations and reduce or diminish your ability to respond to future market growth. As firms maximize bottom-line cost cutting (in their control) and are no longer seeing any top-line revenue growth (not in their control), new pressures are being exerted to find ways to make the numbers look better.

In response to these pressures, organizations usually take one of two approaches, which I refer to as the "In the Game" or "Go for the Bronze" approaches (see Figure 1). In other words, these firms are currently content to

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minimize risk and simply not compete aggressively for fear the market will respond badly.

Only a few firms take the “In It to Win It” approach, which requires having a delayed reaction to market impulses. These firms take a gradual path to closing the gap between their realized and maximum potential, which in turn opens the gap between themselves and their competitors.

As a CIO, it’s critical to identify which approach your firm is pursuing and adapt your IT plan accordingly. Unfortunately, too many CIOs are reporting that their firms are taking the “Go for the Bronze” approach as their executives are looking to them to help improve performance.

What Can Technology Investment Achieve?

Most projects (IT or otherwise) adhere to the axiom that the first 80 percent of project capability can be delivered for a given cost, but the next 10 percent of capability has a steeper cost, the next 2 percent will cost exponentially more, and so on. This has typically been presented as a “hockey stick” curve, although every project has its own shape (such as compressed, skewed, or balanced).

I’ve taken this concept a bit further with the *technology impact curve*, which shows a connection between technology use and margin, rather than cost (see Figure 2).

Given today’s economic situation, the visual in Figure 2 should mean a lot to a CFO. Instead of discussing sheer dollars, IT departments should discuss how business initiatives play against the technology impact curve. If you’re a firm that isn’t producing solid margins compared to your competitors, you can make a case that money spent on properly selected IT projects can have a larger impact on your margin

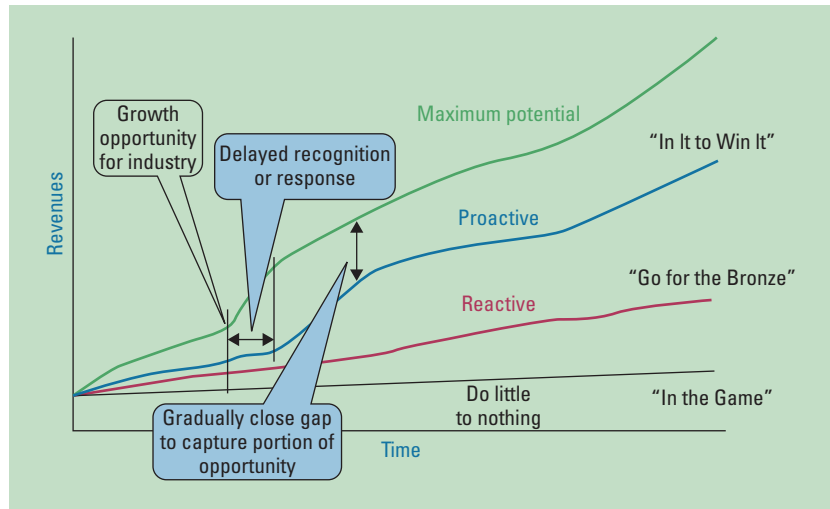


Figure 1. Three approaches to business growth. The “In the Game” and “Go for the Bronze” approaches minimize risk (as well as growth), while the “In It to Win It” approach takes a gradual path to reaching maximum potential.

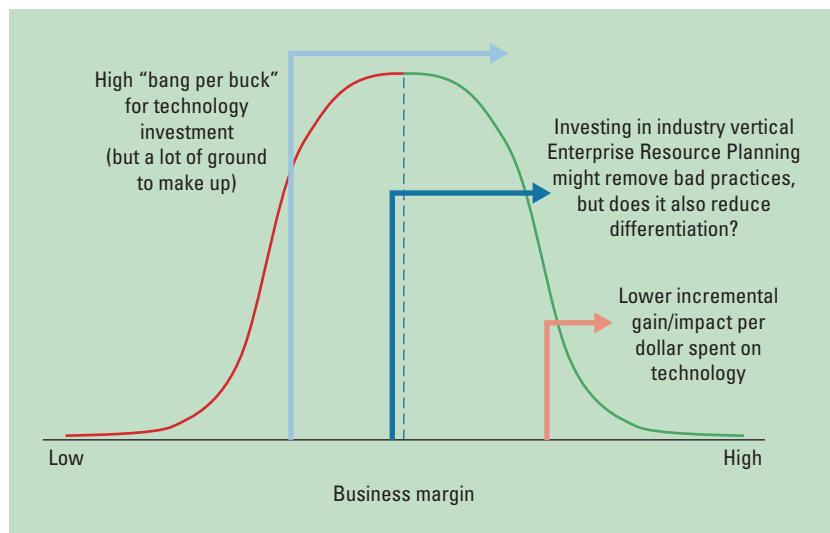


Figure 2. The technology impact curve. In its generic form, this curve shows the relative “bang for the buck” on investments and the impact on margin.

than the same dollar spent by your competitor. If you’re already on the top end of the curve, your incremental gain per dollar spent is more challenging.

One of the obvious trends over the past several decades has been implementing large-scale packages (such as enterprise resource planning or customer relationship management). Although you could argue that implementing

these packages lets a firm on the lower end of the bell curve quickly leap upward (to the right), many believe this homogenizes the industry vertical by removing nearly all differentiation. Depending on what factors differentiate you from your competitors, and whether those factors are even components of your package implementation, this argument can swing either way. As a CIO,

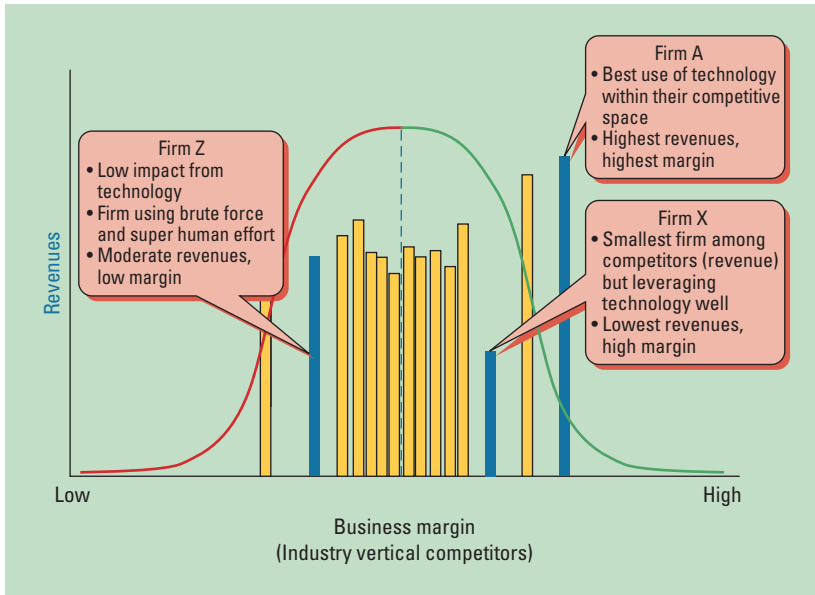


Figure 3. Technology impact—margins versus revenues. The curve has been populated for a simulated industry showing the revenues and margins for 15 firms in a normal distribution. Firms A, X, and Z would have different impacts from and motivation for IT spending.

it’s worth accurately identifying and accepting your position on the curve and the trade-offs from that investment.

Leveraging Technology: Know the Competition

A core question that all organizations should answer is where they sit on the technology impact curve.

The initial placement on this curve requires only two factors: margin and revenue. The margin (relative to competitors in a given industry) determines the placement on the x-axis. The revenue is a detail that can be represented by a vertical bar as shown in Figure 3. By making “margin” the driving factor, size and revenue become less material so you can better evaluate the manner in which competitors in a given market or industry are leveraging IT.

If you’re in a market segment that is predominately made up of publicly traded companies, this is a pretty easy diagram to build since all necessary information is available. Once completed,

you’ll have a unique view of your market space, including where your firm sits relative to the competition.

Depending on your market intelligence of your competitors, you’ll probably also have a general view of how they’re using technology to accomplish their goals. Imagine producing a curve for the retail market. Where would you expect to find Wal-Mart, Kmart, and Target?

Business Growth Meets Technology Impact

If you merge the two concepts of business growth and technology impact, there’s either opportunity or conflict for your firm. If your business model is driving growth (that is, you’re trying to reach your maximum potential), and you’re already on the right-hand side of the technology impact curve, you have the risk that many of your projects will require significant investment to drive incremental change in margin. If your firm is just trying to stay alive in this

current economic climate, you’re probably not going to get the investment dollars to move up the technology impact curve.

The shame of the current market is that many firms are trying to live in the “status quo” model and yet are expecting to find better numbers through IT regardless of where they fall on the technology impact curve. Furthermore, executive teams are challenging CIOs to produce cost/benefit information and business justification that simply isn’t owned by IT—in fact, such justifications might not even exist.

Using the Curves

If you can construct the technology impact curve for your industry and competitors, you can leverage this tool in discussions with executives to better identify IT’s role in moving your firm toward its goals.

Step 1. Discuss (honestly) where your firm falls on the spectrum of business growth (from “In the Game” to “In It to Win It”). Discuss this diagram with the entire management team and determine whether the team’s perspective matches the firm’s actions.

This is currently the hidden root-cause challenge facing IT—when a firm is taking a status quo stance and asking IT to find business value (or growth) in every project from the business—regardless of whether the project presents growth potential.

Step 2. Present the technology impact curve for discussions among the management team. If there’s buy-in that this accurately represents you and your competitors, you’re off to a solid start. If not, adjust the diagram to include or exclude participants and discuss where you and your competitors fall on the curve.

Step 3. When you've reached an agreement about the two curves, discuss how the pending and future initiatives play against the two curves (and corresponding conclusions). Is the IT budget rationally aligned with the impact expectations? Are the projects being proposed consistent with the firm's intentions for growth?

You'll need to ensure that the business side of the house owns the tasks to determine and show management the value of the projects against the business growth curve and corporate objectives.

You'll also need to explain the incremental cost versus gain. Discuss how the projects will be measured for success (beyond "on time" and "on budget"), how far downstream the value of each given initiative will be perceived and measurable, and so on.

Step 4. Discuss how the executive team expects to respond to the future market upturn (whenever it might happen). Outline how the team expects to shift from your current growth curve and how future IT projects will move you across the technology impact curve.

While a stronger economy will allow for more competition, it's likely that your firm is currently in the status quo stance. Using the diagrams presented here should help you better manage your current IT stance and prepare for future growth when the eventual uptick arrives.

Tom Costello is CEO of UpStreme, a business and technology management consultancy with practice specialties in enterprise strategies and software logistics. Contact him at tcostello@upstreme.com; www.upstreme.com.

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