Linking Information Technology to Business Strategy

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Agenda

- Introductions
- What is Value
- Thinking of Holistic Value
- Value from Information Technology
- Alignment and Integration of IT Strategy
What is Value?

The value of the firm today reflects the expectations of shareholders regarding future cash generation.
Holistic view on Value measurement

Capital Market Performance

- E.g., MVA, TRS

Intrinsic Value

- E.g., DCF

Financial Indicators

- E.g., Growth, Spread, ROIC, Profitability Ratio, Capital Turnover

Value Drivers / KPIs

- E.g., Market share, cost per unit, on-time deliveries

MVA: Market Value Added
TRS: Total Return to Shareholders
DCF: Discounted Cash Flow
Shareholder Value Tree

Increase Shareholders’ Value

- Increase Operating Margin
  - Increase Revenue
    - Price
    - Volume
  - Reduce Operating Costs
    - COGS
    - SGA
    - Advertising

Reduce Capital

- Reduce Fixed Assets
  - Net Plant Assets
  - Inventory
  - Accounts Payable
  - Accounts Receivable

- Reduce Working Capital
  - Cost of Capital
  - Debt/Equity Ratio
The Information Technology Report Card

What **should** we be delivering?

What **are** we delivering?

How **well do we operate**?

- Strategy Confirmation
- Customer-Perceived Performance
- Asset & Financial Performance
- Operational Performance
- Structural Performance
- Technology Performance
- People Performance
How can I better use IT to deliver shareholder value?

How can I use IT to deliver on our business strategy?

Am I spending the right amount on IT?

How can IT reduce the costs of operation?

Are there better ways to use technology to become more effective?

Where should I focus my attention for new capabilities?

How do we get a return on our invested IT capital?

How do I measure the value and results from IT?

What IT assets do I need to own?

“Shareholder Value and Direction Setting”

“Business Operations Effectiveness and Efficiency”

“ROI, Controls, Governance”
Components of IT Strategy

IT Strategy
(Demand Side and Supply Side)

Business and IT Alignment
Do the right things

Align Processes & Tools
Do those things right

Asset Optimization
Get healthy and stay healthy
Integration with Business Strategies

Enablement
- Focuses on the impact of information technology in creating new strategic opportunities
- Leverages emerging technologies to establish differentiation and competitive advantage

Alignment
- Ensures *tight linkages*
- Focuses on where IT can deliver the most impact and value to the business

Assets and Resources
- Define how information and technology *resources and investments* should be allocated to deliver maximum business results
- Focus on IT *portfolio optimization* and management
Components of Business Capabilities

Business Drivers/Imperatives

Business Capabilities

- Process capabilities
- Systems capabilities
- Organizational capabilities
Business Capabilities driving IT capabilities

Business Drivers
Revenue, Operational Excellence, time to market

Enable

Business Capabilities
CRM, Pricing, SCM, Back office optimization

Supports

Business Architecture
Processes, Organizations (People), Functions

Enable

Information
Data + Context

Decisions

Application
Business logic and event processing

Manage

Technology
Network, Servers, Workstations, O/S

Enable

Execute

Processes

Enable Applications
IT Processes

Spend and Value

Governance

- Strategy & Planning
- Solutions Delivery and Implementation
- Architecture Management
- Service Delivery
- Resource Management
IT spending actions and reactions

Unfortunately, the link between business value and IT is often not understood by executives, who overly squeeze IT spending levels resulting in inadequate capabilities.

**Common Issues**

1. Typically, IT spending level is based on historical or competitive benchmark levels.
2. Lack of recognition for IT contribution on business side.
3. Short term, simple IT cost cutting is driving down value adding and innovative IT initiatives first.
4. As a result, IT capabilities deteriorate and mid term IT operating costs rise.
5. Eventually, higher IT operating costs eat away funds for innovations, which in turn leads to overall IT budget explosion.
IT spending actions and reactions

<table>
<thead>
<tr>
<th>IT Spend Category</th>
<th>IT Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change Initiatives</td>
<td>25%</td>
</tr>
<tr>
<td>Discretionary - Value Add</td>
<td>40%</td>
</tr>
<tr>
<td>Discretionary - Incremental Enhancements</td>
<td>25%</td>
</tr>
<tr>
<td>Non Discretionary</td>
<td>10%</td>
</tr>
</tbody>
</table>

Value Chain Elements/ Business Functions

- Marketing
- R&D
- Development
- Other...

Represents Size of IT Spending
The creation of IT portfolios facilitates the evaluation and management of target spending levels for IT.

Process for IT Investment Management

1. Determine Available Funding
2. Prioritize IT Projects
3. Adjust Portfolio Mix

- Non-Discretionary
- Service Provider Charges
- Available for Discretionary Investment

ILLUSTRATIVE

Find $ and address risk
Consider if $ available
Do-It
Discard

Initial Plan
Target Mix
THANK YOU

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