

Why Today's IT Organization Won't Work Tomorrow

Future-proofing information technology



Many IT organizations are so busy digging out of yesterday's ruts they have too little time to anticipate what tomorrow might bring. Caught in operational mode, they are not well positioned to help create or implement the types of strategies that set a business apart. But by closing the gap between the needs of business and the ability to deliver, IT can move beyond fixing the past and more actively plan for the future.

Can technology contribute sustainable value to businesses and customers? Ask Boeing, which can build nearly 80 percent of its 777 aircraft outside its final assembly plants via digital collaboration. Ask Starbucks. Its customers come for strong coffee, icy Frappuccinos® and wireless access and leave valuable information behind when they pay with their cashless debit or Starbucks Visa cards.

Today, information technology continues to advance and change the way businesses work in unexpected new ways. Boeing transformed its operational efficiency. Starbucks creatively boosted its revenues. The list goes on.

Unfortunately, many businesses are missing out on similar opportunities for leveraging new technologies to radically change the way they compete. Most IT departments can't effectively explore innovative uses of technology because they are stuck in the daily operational grind, according to a study commissioned by A.T. Kearney

and conducted by Harris Interactive® (*see sidebar: About the Study*). Business leaders view IT as a tactical department focused on cutting costs and maintaining day-to-day operations—not as a key resource for achieving strategic business goals.

Today's IT organizations are not responding effectively to the demands of their business. Executives are eager to adopt new technologies; however, they say the best IT ideas are not coming from IT, but from the business side. That's bad news not only for IT executives, but the entire organization, since the most effective way to achieve value is via strong IT-business partnerships.

The bottom line for most businesses is that today's IT operating models will not meet tomorrow's needs. IT executives must be able to move beyond fixing the past and participate more actively in planning for their companies' futures by focusing on the following actions:

- Maximizing the value of IT assets
- Reducing IT complexity
- Focusing innovation efforts on the customer
- Creating a more strategic IT organization

Companies that fail to transform their IT organizations and functions will lag behind their competitors and put their future growth at risk. This paper explores the question of why IT organizations find it so challenging to help their companies compete today—and how IT can help businesses prepare for tomorrow.

The Roadblocks

The baggage of the past—complex IT architectures, incompatible applications, poor access to data and an overly technical organization—are all preventing IT from creating value today and positioning the business for tomorrow. Today's IT organization is heavily focused on cutting costs and putting out fires. But that's not where the real value lies.

Most companies, especially those in North America, agree on the importance of IT innovation to business strategies. In Europe, IT organizations are not as accountable to the business, with a smaller percentage of study participants saying they have realized strong benefits from IT (see sidebar, *Europe: Catching Up and Integrating— at Its Own Pace*).

Still, most executives say it is difficult to allocate appropriate resources to strategy and innovation. Our study indicates that the money spent on the IT innovation budget is moving away from innovative business solutions, and moving toward maintaining the day-to-day IT environment. In fact, only 20 percent of IT investment is allocated toward IT innovation, a 30 percent drop since our similar study in 2002.¹

“Today, as business changes so fast, it's hard to stay as focused as you want,” explains David Phillips, Unilever vice president of finance and information technology for Foodsolutions North

About the Study

In late 2004, A.T. Kearney commissioned Harris Interactive® to conduct a global IT research study to gain a better understanding of the strategic value of IT, business issues related to innovation and adoption of technology, the role of executives in technology planning and implementation, and IT governance practices. A primary goal of the study was to compare opinions and insights from both business and technology executives.

Harris performed the survey by telephone, contacting 200 business leaders in the United States, Canada and Europe. Participants were from the following industries:

- Financial services
- Consumer products and retail
- Process industries (energy and chemicals)
- Telecommunications and high tech
- Pharmaceuticals and health care
- Automotive and transportation

Survey participants in the finan-

cial services industry have attained the level of senior vice president; in all other industries, participants are vice presidents (or equivalent) or higher. Participants in North America are with firms that have more than US\$1 billion in revenue; European participants are with firms that have at least US\$500 million in revenue. All participants are knowledgeable about their company's IT strategy and its contribution to their business.

¹ See, “The Road to Business Value,” a publication available at www.atkearney.com.

America. “More projects come along in which you have to consolidate. We have to stay on top of these needs to stay on track and meet the bottom line. And while we do that, we’re also looking for ways to incorporate strategies to grow and boost company profits.”

Many challenges facing IT organizations are rooted in IT’s legacy as an operational tool and on a culture built on inside-out knowledge of the business. IT executives often tell us how tough it is to find the time and resources to concentrate on the future. Technology executives can get so bogged down in the day-to-day problems associated with running large-scale IT operations and systems that they cannot get as involved as they should in the planning and strategy process. Much of IT has matured and commoditized, but IT cannot effectively move on to the next wave until data is flowing the way it should, business processes are properly enabled by the available information and complexity is reduced.

Another obstacle is a continued lack of integration between business and IT. Since 2002, business and IT alignment has moved in the wrong direction. When we asked this year’s respondents how integrated their IT planning is with overall business planning, only one-quarter say they consider the process “fully integrated and developed simultaneously” with the business. Almost one-third of respondents say it is “partially or not aligned.” In contrast, our 2002 study found one-third of participants had a “fully integrated” IT planning process and only one-quarter considered the process only “partially or not aligned.” With all the talk of alignment and integration over the past few years, this step backward speaks volumes about the difficulty

and complexity of integrating IT and business elements of the organization.

These problems are likely the reasons why IT organizations are perceived as not being very agile and being unresponsive. Only 41 percent of business respondents—and just half of the IT respondents—believe that their IT organizations react very well to business change.

The Dichotomy: Business Versus IT

While business and IT executives agree on intent, they often disagree on delivery and execution. Both business executives and chief information

These findings shatter the notion that the IT organization leads early adoption of technology and the business side slows down the process.

officers (CIOs) say IT is a critical component of their business and that new technologies will continue to change the competitive landscape. Technology pervades almost all aspects of current business operations and is considered a critical innovation tool that can help support future growth. Delivering on that promise is the challenge for the IT organization.

But when it comes to execution, IT professionals and business executives have very different perceptions. Business leaders are less likely than

their IT counterparts to say that IT contributes to various aspects of business strategy (see figure 1). In fact, nearly half of business executives agree that “the IT department focuses primarily on day-to-day IT requirements.”

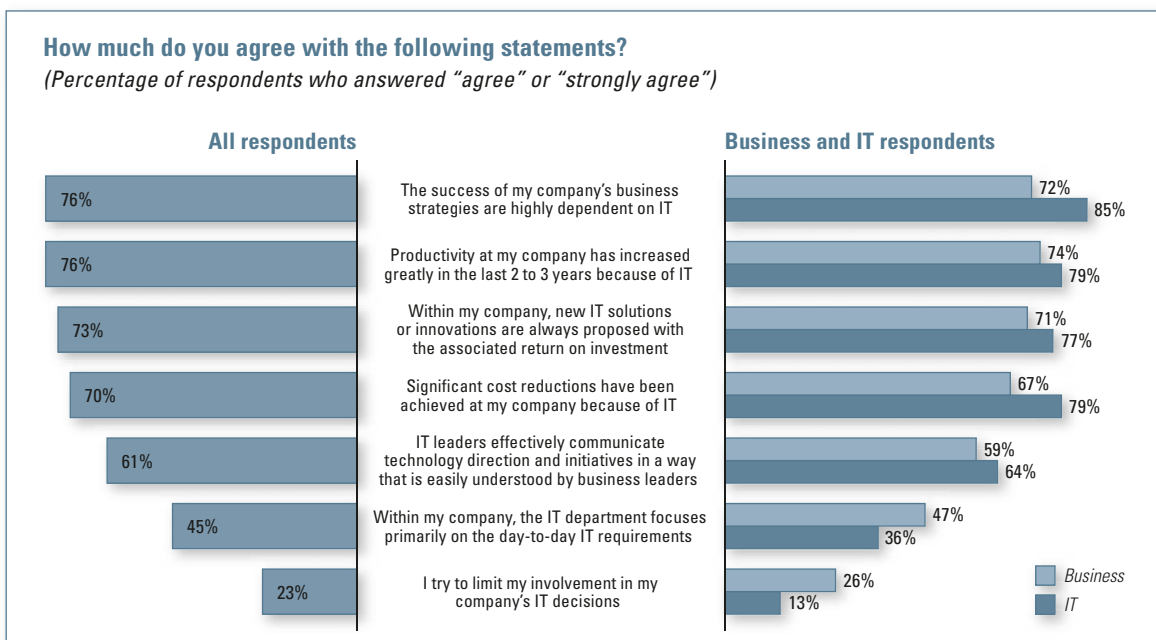
Business executives are also more skeptical of budgetary efficiency. More than 30 percent of the business leaders surveyed, versus 17 percent of technology executives, believe that one-fifth or more of their IT budget is “wasted” each year.

Additionally, business and IT leaders have different views on which business functions IT helps most in terms of delivering competitive advantage (see figure 2). The largest differences occur in the top-line growth functions—sales and marketing areas—where IT leaders have a much more favorable view of their contributions than their

business counterparts. For example, more than half of the IT leaders surveyed say their departments are important or extremely important to the marketing function, and 41 percent of business leaders say so. The penetration of customer relationship management (CRM) systems and customer-facing solutions brought about by IT-driven projects has certainly contributed to this view—but the value realized has not been clear to the business. Now that organizations are integrating customer channels and basing supply chains on demand, executives on the business side are focusing on using technology to boost revenues. The IT organization must keep pace with this trend.

As technology contributions to business results have become clearer, companies’ desire to adopt technology earlier has increased. Yet busi-

Figure 1
Views on IT’s contribution to strategic results



Source: A.T. Kearney

ness and IT managers view the optimal adoption timing of technology very differently (see figure 3 on page 6). Surprisingly, more than half of the business leaders surveyed believe they should adopt technology early—or before it “matures”—compared with about one-third of IT leaders.

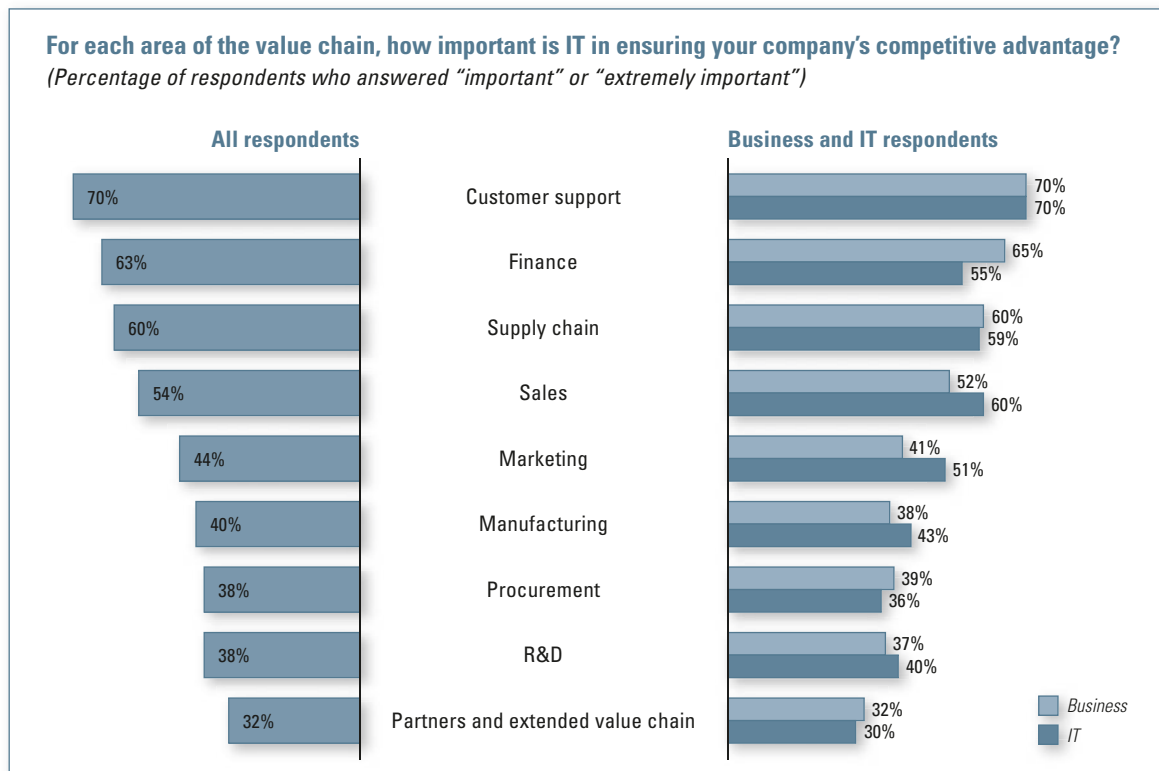
And when it comes to generating innovative technology solutions, it’s not the IT side bringing the best ideas to the table. Only 28 percent of study respondents say these ideas come from IT. Not surprisingly, 40 percent of IT executives say the best ideas come from the IT organization.

These findings shatter the notion that IT leads early adoption of technology and the busi-

ness side slows down the process. The study suggests that despite the key role it plays in business strategy and operations, the IT organization is not perceived as being effectively positioned to help the business realize or implement these breakthrough strategies.

Clearly, these issues threaten the future relevance of the IT organization. Technology leaders must move quickly to close the gap between business needs and the IT organization’s ability to deliver. One survey participant, a vice president of marketing at a major retailer, puts it this way: “I think early adoption is vital to our business. You do have to understand how important it is to

Figure 2
Comparative views on the competitive advantage delivered by IT



Source: A.T. Kearney

get ahead of the curve and build a foundation that you can expand upon.”

A final measure of IT’s relevance is executive- and board-level visibility. The perception that IT doesn’t necessarily contribute value beyond basic cost reduction could explain why IT isn’t always a priority at the executive level. Only 37 percent of all the executives surveyed rank IT issues in the top 10 percent of their company’s priorities; 75 percent rank IT in the top 25 percent. Interestingly, only 28 percent of the IT leaders rank IT as a top 10 percent issue, although more than 70 percent rank it in the top 25 percent.

Unlocking the Future

How can both business and IT executives move beyond these issues? It’s a critical question. With core IT operational components maturing and the next wave of value-generating technologies beginning to emerge, the quality of IT execution will be a key differentiator in leading organizations (see sidebar: *Is Your IT Organization Ready for the Future?*). The focus will not be solely on the technologies, but rather on how they can be used to give a company an edge over its rivals.

The challenge for the future is to be equipped for innovation—but, in the words of survey participant Virginia Guthrie, CIO of Coors Brewing Company, “don’t get caught up in the buzz or latest flavor of the month in technology.” Rather, Ms. Guthrie says, IT leaders should ask, “What will help us achieve our business goals?”

To build a foundation for the future, business and IT executives need to agree on how technology can most effectively support business goals. Information technology can create value beyond cutting costs, and, once it understands how to do this, the IT organization needs to shift resources accordingly. Specifically, IT can help future-proof the organization by addressing four key areas:

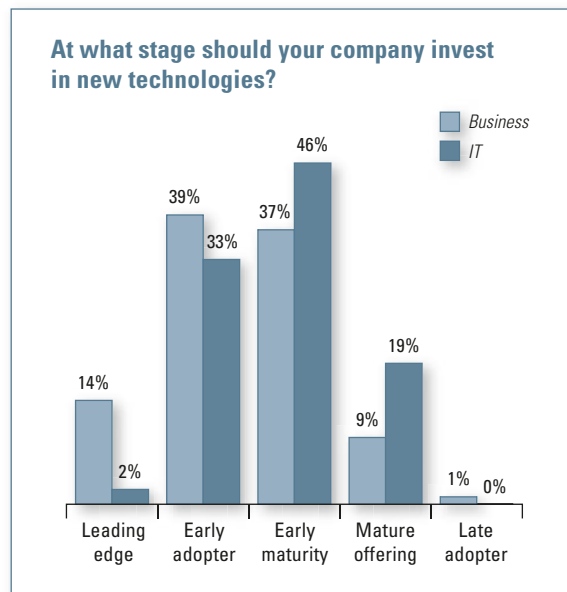
value-based asset optimization, IT complexity reduction, customer-focused innovation, and organizational structure and governance.

Make the most of IT assets. Not all technologies contribute equally to value; some work in the background to run the company, while others can unlock competitive advantage and improve customer interactions. An organization that understands which technologies will set it apart can ultimately invest more effectively.

How can companies make the most of their IT resources? The first step is to group IT assets by the type of benefit they provide to the organization and view them as a portfolio. IT can help increase shareholder value in three ways:

Increase operational excellence. These technologies typically consist of mature applications and data-center technologies—assets that should be

Figure 3
Desired technology adoption stages



Source: A.T. Kearney

managed to take information systems to higher levels of effectiveness and cost efficiency.

Improve core value. These IT tools are for transforming or improving core business processes

within the organization. While the objective of IT that increases operational excellence is to create low-cost, flexible support for the enterprise, the goal of core-value and IT-enabling processes

Europe: Catching Up and Integrating—at Its Own Pace

Our 2004 study finds that European organizations continue to look more like companies in North America—but some differences remain. Europe seems to take a more conservative view of IT: European executives have lower expectations of IT and rely on it less. As a result, IT organizations are not as accountable to the business, and a smaller percentage of respondents say they have realized strong benefits from IT.

Additionally, Europe is much more concerned with the operational aspects of IT than with innovation. In fact, only 20 percent of surveyed European executives believe IT innovation is “critical” to their business, compared with almost one-third of North American executives.

Of course, it’s difficult to make too many comparisons with Europe in aggregate: The continent is still a collection of countries that take pride in their uniqueness. The challenges cannot be underestimated as these differences spread from systems to business processes. This fragmentation, which exists all the way through to IT investment decisions, makes integration and collaboration much more challenging for European companies. To succeed

on the global scale, European companies must overcome their region’s fragmentation—from language and currency to organizational models.

As in 2002, Europe expects to concentrate on enhancing sales and marketing as well as improving integration. In fact, when European respondents were asked which technologies would most likely change their industry or company, the two most frequent responses were CRM and web services. The investments in CRM have seemed to pay off: Sales force automation and CRM endeavors received the most credit as IT projects that “contributed to significant improvement.”

Other technologies did not make as much progress in Europe. For example, only 10 percent of European consumer product companies are looking at radio frequency identification (RFID) tags, compared with nearly 35 percent of North American consumer product businesses.

In addition, each region has a unique approach to business technology. The United Kingdom, for example, appears ready to invest in innovation: 42 percent of U.K. respondents say they should be

“leading edge” or “early adopters.” The United Kingdom also seems to have the most board of director involvement, with 93 percent of firms needing board approval for all major IT decisions.

Northern Europe appears to have the strongest views on IT: Almost three-quarters of its surveyed executives believe their business has a positive view of IT. The region also notes considerable operations enhancements, with nearly one-third of the executives believing IT has helped them improve productivity by more than 20 percent.

Finally, in southern Europe, only 8 percent of the surveyed executives strongly agree that their companies effectively anticipate what IT can do for them. Companies in southern Europe are also the least likely to see new technology changing their businesses, with only 55 percent of the region’s respondents answering in the affirmative. Just as the greater continent lags North America, the southern European countries are behind their northern neighbors. But as business technology and the European market mature, these gaps should disappear.

is to take value chains and business operations to world-class levels. The measure of success is not cost reduction, but improvements in returns or growth.

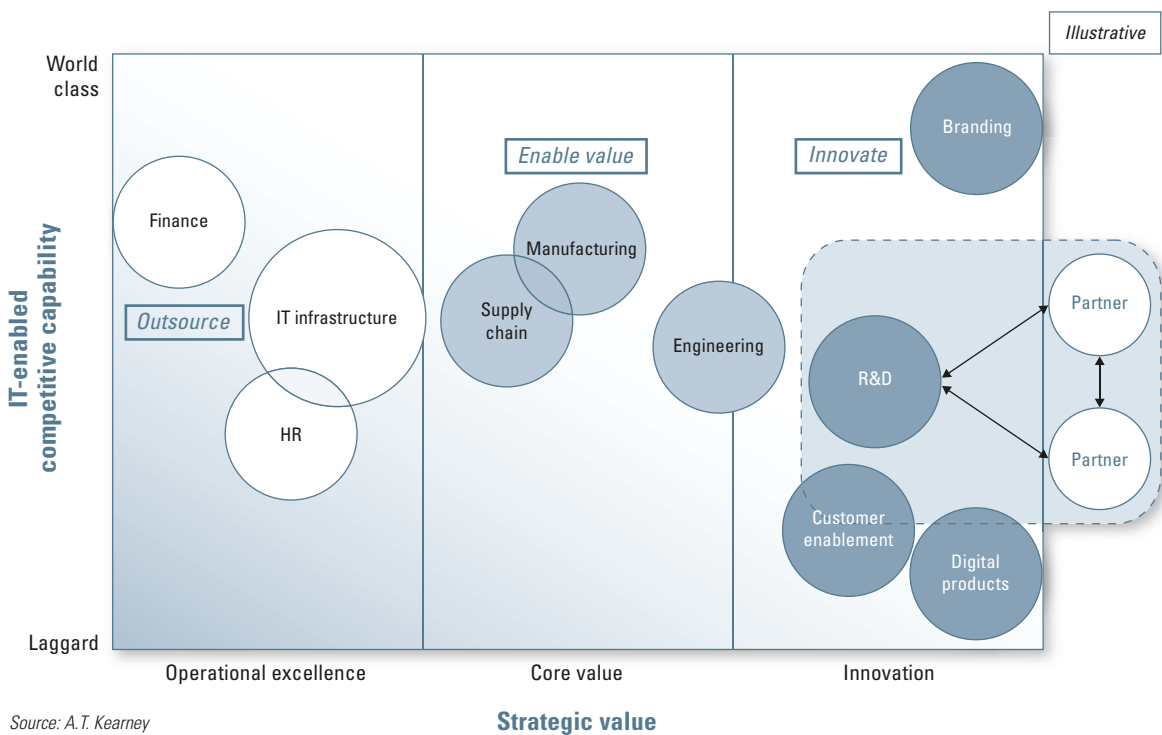
Boost innovation. This technology is aimed at achieving breakthrough innovation to improve competitiveness. Initiatives move beyond improving processes to helping create competitive strategies and transforming market dynamics, repositioning a company against its competitors or allowing it to enter markets where it did not previously compete.

By segmenting assets into these three areas, IT executives can manage them as a portfolio based on the value they deliver (see figure 4). For example, applications in the operational-

excellence category are typically prime candidates for outsourcing as they provide base services and are standardized to enable third-party support at a reasonable cost.

Consider a major energy company with decentralized IT systems in hundreds of locations. The structure was costly and provided limited functionality. Highly customized legacy applications ran on different platforms for customer management, collections, pricing and distribution. Turning to innovative technology to fulfill a strategic mandate to cost effectively improve its services, the company invested in a solution that includes a CRM application, a centralized data repository, fleet routing, mobility and a customized demand-forecasting application.

Figure 4
Segmentation of the IT asset portfolio according to business contribution



Source: A.T. Kearney

By focusing on technology innovation and a flexible architecture, the organization not only added new business capabilities, but also saved tens of millions of dollars in annual operating costs, with a payback period of less than 24 months. The company also benefits from the standardized package and business processes, and is building the technology platform to accommodate future acquisitions. The new technology is also a major force in the company's shift from a product- to customer-focused strategy. Armed with strong analytic tools, optimized processes and a modern centralized IT architecture, the organization will assume a leading cost and service position in its industry.

Viewing IT as a portfolio encourages management to focus on how each technology contributes to the business. It also draws a clearer picture for gauging the levels of human and monetary resources to devote to each type of technology. Typically, the smallest proportions of resources are dedicated to innovation, which represents the biggest opportunity to increase shareholder value.

Some companies are already focusing more on value. "I'm probably spending 25 percent of my time working with senior staff or working with my group on forward-thinking things, and 40 percent working on projects," explains Virginia Guthrie of Coors. "I'm spending less time on just keeping the IT infrastructure going."

The portfolio approach can also help IT executives communicate value to others in the organization. One of A.T. Kearney's recent banking clients used this approach to effectively communicate the measurable value its IT architecture program provided to the organization. (Architecture is defined as the key IT elements across an organization—ranging from base technologies all the way up to applications, business processes and strategies.) The bank wanted to increase efficiency,

improve effectiveness of its operations, and deliver innovative products and solutions to its clients. The IT executives, needing to clearly demonstrate how the IT architecture supported these goals, classified architecture projects that provided new technologies or strategic flexibility as "innovative." Initiatives to promote common internal processes and consistent customer experience were called "business enablers." Finally, projects that reduced costs through improved rates and labor, and permitted effective reuse, were classified as improving "operational excellence." By explaining to senior business executives that something as invisible as IT architecture was actually improving the bank's financial standing and contributing to its strategic initiatives, the IT executives were able to secure continued business commitment to the program.

As study participant Sam Coursen, CIO of NCR, explains it: "We don't talk bits and bytes. It's all about the business results—we speak at length about how we are going to make things more efficient and what help I need from our business leaders. Or we talk about the process improvement that yielded high revenue or lower expenses. If you talk in their terms, they'll get it."

Build for tomorrow by simplifying today. Unfortunately, concepts such as focusing on value or putting the customer first often lose out to everyday IT issues. If business and IT leaders want to position information technology for tomorrow, they need to tackle technologies and processes that demand more than their fair share of today's resources. Among the biggest challenges businesses face today is reducing the complexity of technology.

IT architectures, processes and data have become overly complicated and fragmented, often the result of organic growth, the IT boom and mergers and acquisitions. Maintenance and support of systems, in turn, have become extremely

expensive. The piecing together of individual, complex components can create long delays in the IT development process, eroding value as well as IT's credibility. Support costs can be signifi-

cantly higher as well. Generally, IT complexity can be broken down into the following areas:

Products. More than 65 percent of all IT projects either fail or take considerably longer to

Is Your IT Organization Ready for the Future?

How do you know if your company is prepared for the future? The following self-assessment can help you determine whether or not your organization is addressing the right issues and is prioritizing projects appropriately (*see figure*).

Scoring: For each question, a score of 3 or lower indicates an area where improvement is necessary. Total

scores can be assessed as follows:

- 40 to 50: Your company is on the right path and understands how business technology will affect its fate.
- 30 to 40: Your organization is taking many of the right steps but needs to change some significant areas to reduce risk and optimize IT operations.

- 20 to 30: Your company is less than optimal and operates in an IT environment that needs strong leadership and a clear path to improvement in key areas.
- Less than 20: Your organization operates in an ad hoc manner and needs to prioritize IT initiatives to improve and standardize.

IT self-assessment					
Please indicate your response to the following statements	Scale (1 = strongly disagree, 5 = strongly agree)				
	1	2	3	4	5
1. IT is integrated into the business planning process.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. IT responds rapidly to change and keeps the company competitive.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. IT is preparing the business for future business growth and direction—and is an equal partner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Investment in IT delivers value to the organization.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. IT innovation improves the firm's bottom line.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The IT organization has excelled at helping the business understand and adopt new technologies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. IT is directly integrated with end-customers and understands how innovation can transform the customer experience.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. IT has clear metrics and performance measures, and its contribution to the business is appreciated across the enterprise.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. IT is consistently using outside benchmarks to identify areas for reducing costs and improving service—and is competitive with the market.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. The board of directors is actively engaged in business technology decisions and has a strong understanding of IT risks and benefits.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: A.T. Kearney

complete because of their complexity, according to the Standish Group, a research firm that tracks IT purchases. And when it comes to projects with budgets of more than US\$10 million, 98 percent of projects fall short.

Just as cars and airplanes can be built more effectively by starting from common platforms, technology products can start with a core set of similar shared functions. Variations can then be added around the base. Examples include online navigation systems in automobiles and multiple variations of action video games.

Information technology can help reduce complexity by taking a product-line approach. For example, a software product line would share a standard set of features to satisfy specific needs and is developed from a common core technology.

By approaching product development in this fashion, companies can reduce costs, get new products to market faster, and develop more product variations. Prime targets for a product-line approach are markets that are highly complex and involve many variations (such as video games) and products that can require significant customization (such as financial cash-management services).

Architecture. Another area in need of complexity reduction and standardization is IT architecture. By understanding when common solutions can help reduce complexity, companies can achieve substantial savings and greater flexibility (see figure 5 on page 12).

More commonality should occur in base technologies. And although the technologies behind an organization's more business-focused areas can be standardized—such as applications, projects,

processes and customized business strategies—additional opportunities exist. For example, in the lower layers of the architecture, where cost is of greatest importance, companies can define the cost baseline and best practices, set desired targets and identify initiatives to deliver value. Again, the portfolio approach allows companies to identify when common solutions are appropriate and when a customized solution is required.

Once an organization defines key functions and processes that create advantage, it can select architecture standards to help deliver them, and manage future investments and direction. Standards make systems more compatible, increase economies of scale and decrease internal coordination costs. For

Only 20 percent of IT investment is allocated toward IT innovation, a 30 percent drop since 2002.

example, each project need not involve a debate over which technology is used—the defined standard should be given priority with rare exceptions.

Of course, standards are not isolated within an organization. As value chains spread across multiple companies and geographic regions, standards can help link the various parties' systems, information and processes. The CIO should advocate the use of these standards across the entire value chain whenever possible.

One of the most promising approaches to reducing business and application complexity is a service-oriented architecture (SOA). These

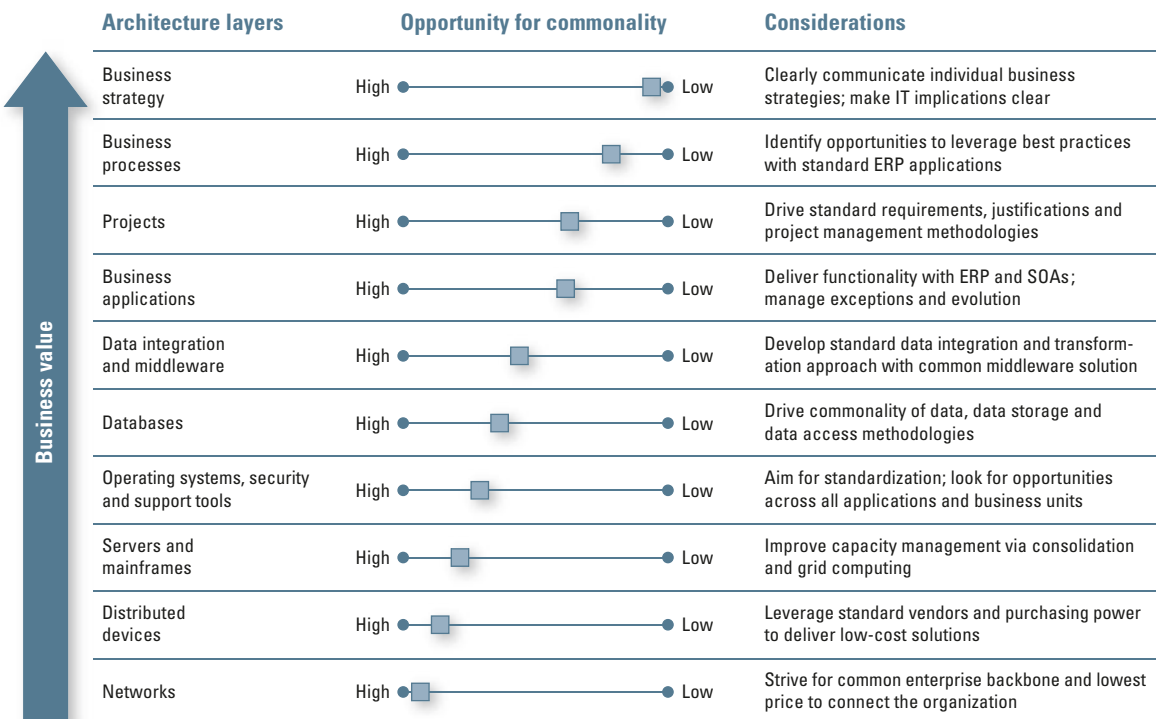
collections of services communicate with each other across a company's network or via the internet—they are “plug and play” offerings that help standardize business functionality within and across the enterprise.

This approach provides a consistent function and service and makes it easier to access data. Information and services are centralized and reusable, and therefore the development time is shorter and the maintenance costs lower. When a software service is needed (such as the retrieval of customer information) the user sends a request to a directory, which determines the proper service name, location and required format, and then sends back the desired output (in this case,

customer information). Users don't need to know the internal workings of the service—it's the “what” that's important, not the “how.” And organizations don't need to own and maintain software; they just access the published business service over the internet or network.

To illustrate this point we can draw upon the experiences of a bank's retail unit. The unit combined the SOA approach with a common customer-data store, offering consistent and easy access to customer data across several functions and applications. The unit defined the services needed and the standards for the data. Users of the service need only know the format to send and receive the data, and the name to call the service.

Figure 5
Common solutions can help reduce IT complexity



Source: A.T. Kearney

To date, the results have been positive. The bank shares consistent customer data across several functions with greater ease, and data is more accurate. The defined services have encouraged reuse—a substantial cost saving—and future services can be added at a reduced cost. The bank is bringing this initial model and approach to other projects and initiatives.

Traditional internet providers, such as Amazon and eBay, are also using web services and SOAs to post suppliers' catalogs to their sites, which benefit all parties: The site content is better, suppliers get more exposure and providers obtain new sources of revenue.

For companies interested in building a next-generation architecture, we recommend beginning with a pilot program to develop the skills and processes needed to make the most of this architecture. Developing the right supporting applications and internal skills will be essential to success.

Services. Finally, to effectively match IT supply with demand from the business, IT must standardize its service offerings and ensure its alignment with business, product and customer strategies. It is crucial to define what products and services the business will want and how IT will organize to meet this demand. For each service offered, there should be definitions of the process, tools, scope, applications and pieces of the architecture that it covers.

Process definitions should outline the following: how each IT service should be delivered and implemented; how the service is requested and prioritized against other business priorities; and how support or development will be implemented. Ideally, companies should develop a standardized tool for managing all IT services and requests. For example, a large financial services client uses a standardized tool and financial-

justification process to prioritize its IT initiatives. The company aligns each request (and its financial justification) with predefined business drivers approved by top executives. The tool then determines which requests will deliver the most benefit, as defined by overall strategies and objectives, and prioritizes requests accordingly. Using the tool, the firm can better match supply to demand for IT, making decisions free from personal bias—a frequent problem in the prioritization process. Coupled with clearly stated business and product strategies, the tool has the potential to transform the demand management function and improve overall business performance.

Innovate with the customer in mind. Among a CIO's biggest challenges in maximizing IT value is that value means one thing to internal clients and another to end customers. Because IT often focuses on its internal users, an important audience—the end customer—often gets neglected and the business loses an opportunity to innovate. IT organizations need to integrate directly with their end customers as well as align to their business. CIOs can no longer merely be in step with business goals; they must also be intimately aware of customer trends and needs.

By understanding the requirements and wants of end customers, whether they are businesses or individuals, IT executives can focus more closely on technologies with the most potential to satisfy customers' needs. "Smart" refrigerators or vending machines that signal a distributor when the inventory is low or a repair is required aren't valuable because of their technology, but because of their purpose—in this case, keeping products stocked and devices functioning. "As long as you are looking through the consumer's eyes you will never go wrong," said one study participant.

The A.T. Kearney study found that business executives still believe that IT is most effective

in finance and in delivering customer-support functions. In terms of the latter, companies and IT organizations need to treat every customer touch point as an opportunity both to enhance service and to collect key information that will enable them to adjust future offerings. The right customer information can equip IT to bring powerful ideas to the business.

But what do customers want? How can businesses serve their customers better while reducing their own costs? By investing in technologies that play a key role in answering these questions, companies can significantly add to shareholder value.

Consider a retail-gas client that created data profiles that included all customer activity and demand-forecasting information. The company combined data from all customer touch points, including its call centers and field-delivery services, as well as from marketing, billing and collections. Adopting new tools such as wireless

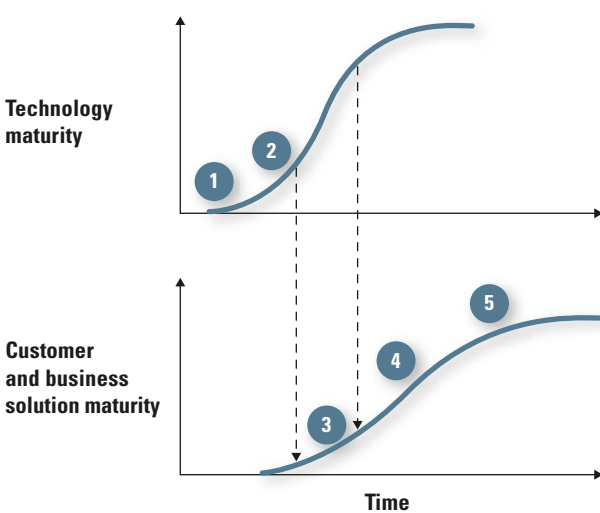
handheld devices provided managers and call-center agents with real-time visibility into delivery status, giving them an instant, up-to-date view of each customer. A logical system extension is monitoring customer tanks with smart tags or a similar technology. Rather than predict orders via advanced demand forecasting, the company could track inventory, monitor actual tank levels and have orders automatically created when gas levels reach a customer-specified trigger point. Also, by treating each interaction as an opportunity to collect data, the company is better positioned to offer the products and services that are truly needed.

While it's easy to say that early adoption and innovation are keys to such positive efforts, it's much harder to determine when a customer is ready to adopt an innovative solution. The best approach, again, is to focus on the benefit rather than the technology. Because it takes time for

Figure 6

Determine when technologies will develop into viable business solutions for customers

Adoption waves for business and customer technology



Stages and considerations

- 1. Technology emerges**
Begin to track potential customer-focused business solutions. Educate the organization and customers.
- 2. Technology begins to mature**
Monitor value and trigger points for customers as innovative business solutions emerge.
- 3. Early business and customer adoption begins**
Decide whether this wave can differentiate the business and offer new solutions to customers. Pilot technology with customers and collect feedback.
- 4. Business solutions begin to mature**
Drive customer adoption and identify logical extensions of technology based on customer needs.
- 5. Business solutions mature**
Keep pace with the pack but identify new products and customer needs via continuous feedback.

Source: A.T. Kearney

technology innovations to advance into viable business solutions, businesses need to look at both how innovative the technology is and also how far it has come in meeting customer needs (see figure 6). By including the customer's perspective in the product-development cycle, companies can better understand the technology's potential to change the customer's value chain and promote long-term, profitable customer relationships.

Organize to meet tomorrow's needs. Today's IT organization isn't encouraged to take the strategic approach needed to match IT's supply to the organization's needs. The typical IT organization is structured by the function of the technology and type of asset. All assets are managed alike, regardless of their technical maturity, and incentives focus on total cost and service levels. To better serve the business, IT must change both how it governs and how it is organized (see figure 7 on page 16).

One alternative is to organize IT by technology lifecycle and business needs. Technology is organized as a managed portfolio of assets, based on maturity cycles, which tie back to business value; incentives then focus on that value.

When IT departments focus more closely on what the business cares about most, a cycle of mutually reinforcing improvements begins. Senior business leaders and board members will more actively solicit technology executives' opinions. And technology executives will be better positioned to deliver a realistic assessment of IT's contribution to the bottom line. Add an appropriate metric system that aligns business goals

with IT initiatives, and true integration can exist between business and IT.

As integration improves, so will results. Business and IT groups that have fully integrated planning processes realize significant benefits, such as productivity gains, cost reductions and a more favorable perception of IT. In fact, more than two-thirds of companies whose business and technology processes are fully integrated significantly outperform their competitors.

In addition, a strong boardroom presence allows a company to implement valuable IT services more quickly. In fact, our study reveals that when board members are active in setting IT

To build the foundation for the future, business and IT executives need to agree how technology can most effectively support business goals.

direction and making key technology decisions, these companies outperform their competition in revenue growth.

In short, boards will get involved in an activity they see as contributing to business value. For example, FedEx has an IT committee working with its board—not because it wants one, but because the information is indispensable to the company's operations. According to *InformationWeek*, the IT committee focuses on strategic aspects of technology, monitors IT and data security and reviews key IT-related aspects of corporate strategy. Robert

Carter, FedEx’s CIO, and other senior IT managers meet with the committee quarterly, and communicate with committee members one-on-one at other times to keep them abreast of trends and current FedEx technology. This level of awareness “gives shareholders a higher degree of confidence in how we allocate dollars on IT,” says Dottie Berry, vice president of IT at FedEx Services.

Step Out from the Sidelines

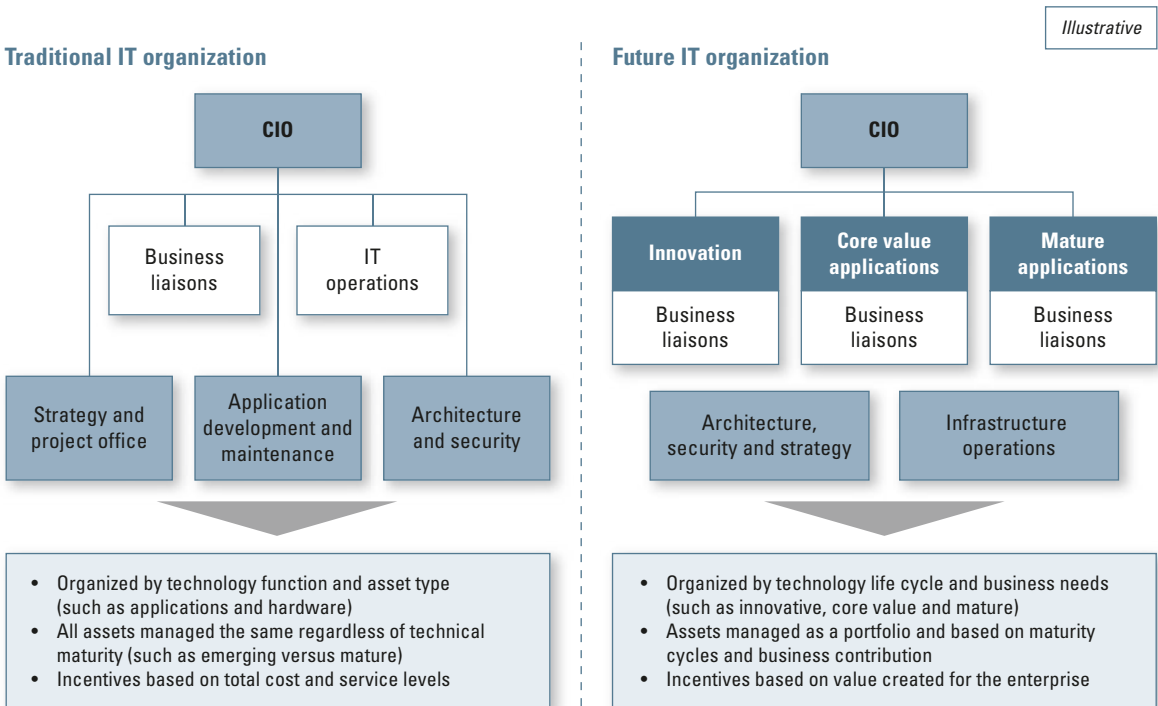
As the pace of IT innovation intensifies, businesses will become increasingly dependent on an effective technology organization. Businesses with IT organizations that cannot keep pace with chang-

ing demands are at risk of falling behind their more agile rivals. Information technology leaders must participate actively in strategic planning and look past day-to-day execution. Getting there will require many significant changes in strategy, culture, organization and process, but the shift is as critical as it is difficult.

Collaborative customer-centric strategies, supported by innovative and focused technology solutions chosen for the return they provide, will become the rule rather than the exception. Companies have little choice. They can look at IT strategically—or watch from the sidelines as their competitors take the lead.

Figure 7

A strategic approach to technology management for tomorrow’s IT organization



Source: A.T. Kearney

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