

IT Value for Money

BISSG Meeting

8th October 2003

Agenda

- **Why is IT Value for Money important ?**
- What does value for money mean ?
- How can you increase it ?

If IT is not providing Value for Money ...

- Money is wasted on technology or IT services that do not produce business benefits
- Competitors are seen to steal a march by using IT innovatively
- The business employs lots of manual 'work arounds' (such as re-entering data into spreadsheets) to get the functionality or information it needs
- Internal customers of IT spend time on sorting out IT problems which are diverting them from their normal role
- IT spend can be much less *or much more* than industry averages
- Senior IT staff are not involved in business planning and do not understand how the business creates value
- The importance of IT is neglected by senior executives despite the fact that without IT the company would fail
- The business do not understand how to use IT to create change

So how do we recognise if IT is providing value for money then ?

'Value for Money' is about effectiveness - helping the business to achieve its goals - rather than efficiency (output/input)

Research* has shown that IT Effectiveness (see below) accounts for half the variation in industry-normalised profit margin - ie. ***there is a strong correlation between organisational profitability and Effective IT***

IT Effectiveness was measured as a combination of :

- IS contribution to business goal achievement,
- Customer Satisfaction,
- Systems quality and functionality.

* Source CogniTech

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The value for money equation ...

Value for Money from IT =

**Business Benefits
created from IT-
enabled initiatives**

+

**Degree of support for
achieving the
business strategy**

-

**Cost to the
business of real or
potential IT failures**

Cost of IT function

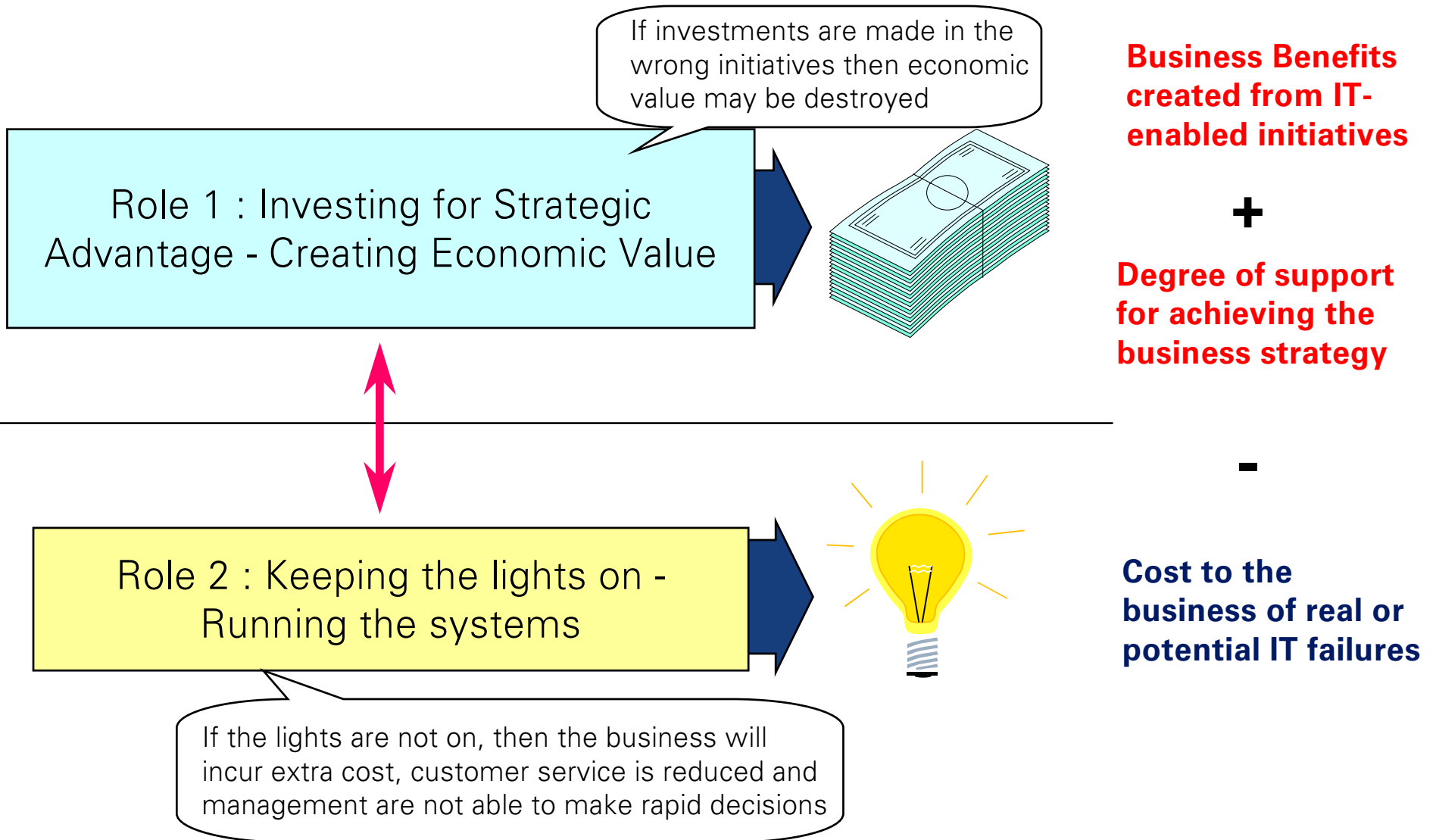
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**Hidden cost of IT in the
business**

Key = **Primarily Business Responsibility**
Primarily IT Responsibility

... means the business has a major role in achieving value for money from IT

We see top line of 'Value' coming from IT's two key roles ...



However, Some Aspects of Value are in the Eye of the Beholder

Remember the three components of IT effectiveness? :

- IS contribution to business goal achievement,
- Customer Satisfaction,
- Systems quality and functionality

All of these rely on measuring the businesses' perception

***IT must seek to influence the business's perception of value –
this is called marketing !***

What about the denominator - costs ?

Cost of IT function



- Should be easy to identify
- Can be benchmarked – but use only as a guide

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Hidden cost of IT in the business



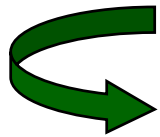
- Cost of technology and services – why is it there ?
- Opportunity costs of wasted user time – typically 56%* of operational IT costs per user can be attributed to this – that's over £4,000 per user per year !

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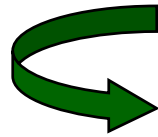
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- What does value for money mean ?
- **How can you increase IT ?**

Value for Money from IT should start with the business strategy

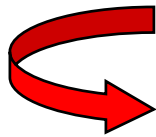
Business strategy (incl. Objectives and CSF's)



Business Architecture



Business Plans



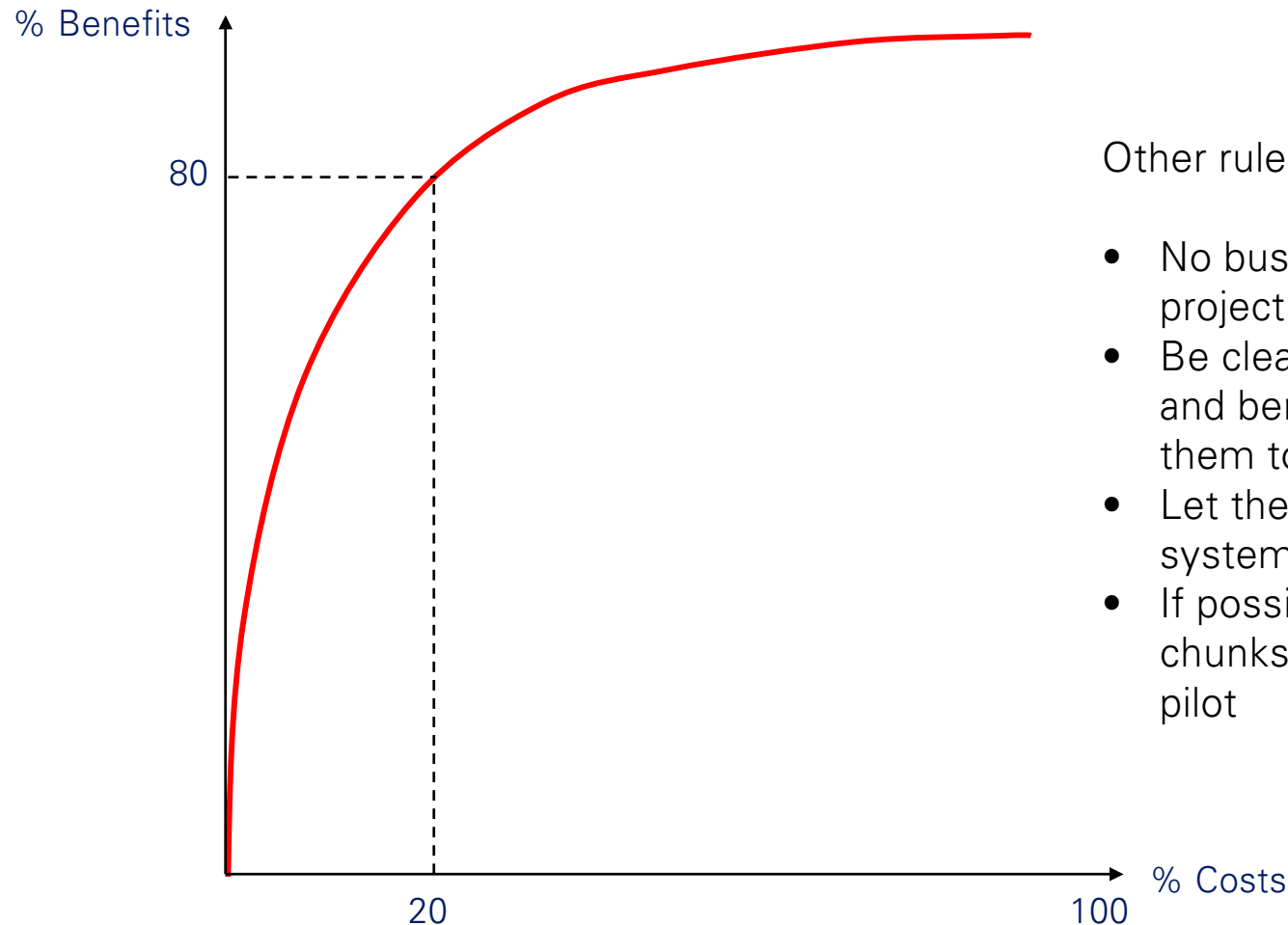
IT Strategy



- IT-enabled business projects
- IT target architectures
- IT sourcing strategy
- IT management changes
- IT strategic plan

This can be tenuous – particularly if the business plans are not clear !

Go for 80% of the benefits for 20% of the costs when developing IT-enabled opportunities



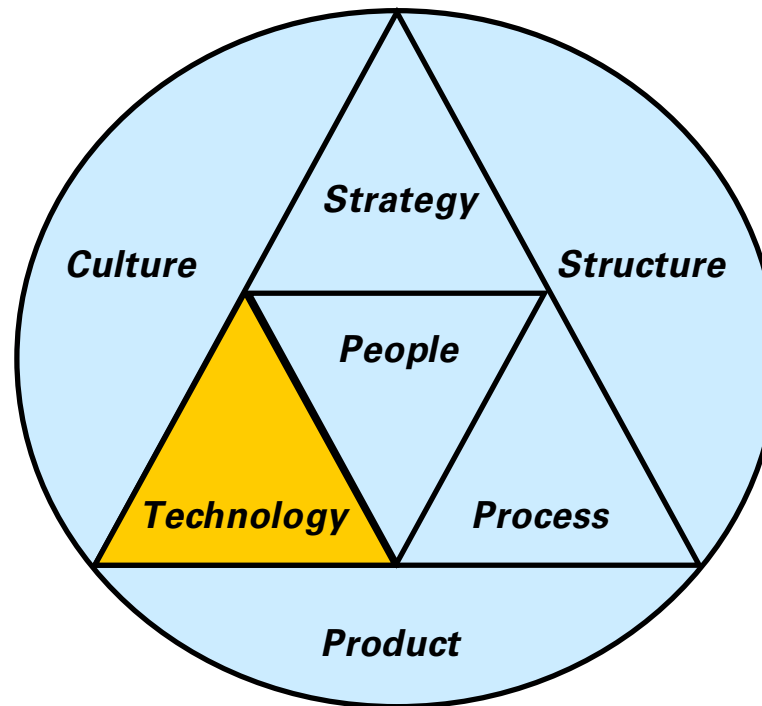
Other rules to follow include :

- No business sponsor = no project
- Be clear about the objectives and benefits and communicate them to all concerned
- Let the benefits drive the system functionality
- If possible, do it in bit-sized chunks or test the benefits in a pilot

IT folk have a tendency to aim for 110% of the benefits for 200% of the cost

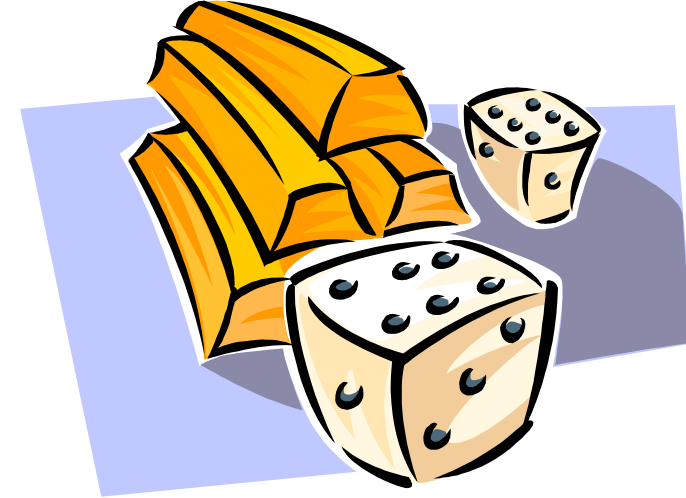
Don't get hung up with thinking that the solution is 100% technology – its just one of 7 things to consider !

This model is based on seven "levers of change" which represent the key organisational elements



People, Structure and Process typically need to be considered as well

IT risks need to be identified and managed



Not just the disaster scenarios but also :

- Risk of virus infection bringing down networks for prolonged periods
- Restoration of back up data in a timely manner
- Implementing systems before they have been fully tested and other implications addressed
- Risk of information getting to competitors or into the public domain and harming corporate reputations
- Incorrect processing of financial data
- Over-runs on project costs and timescales
- Law suits over unlicensed software usage
- Hackers altering web sites

But the risks need to be balanced against the cost and time of mitigating them

Don't forget the end users/ customers of IT

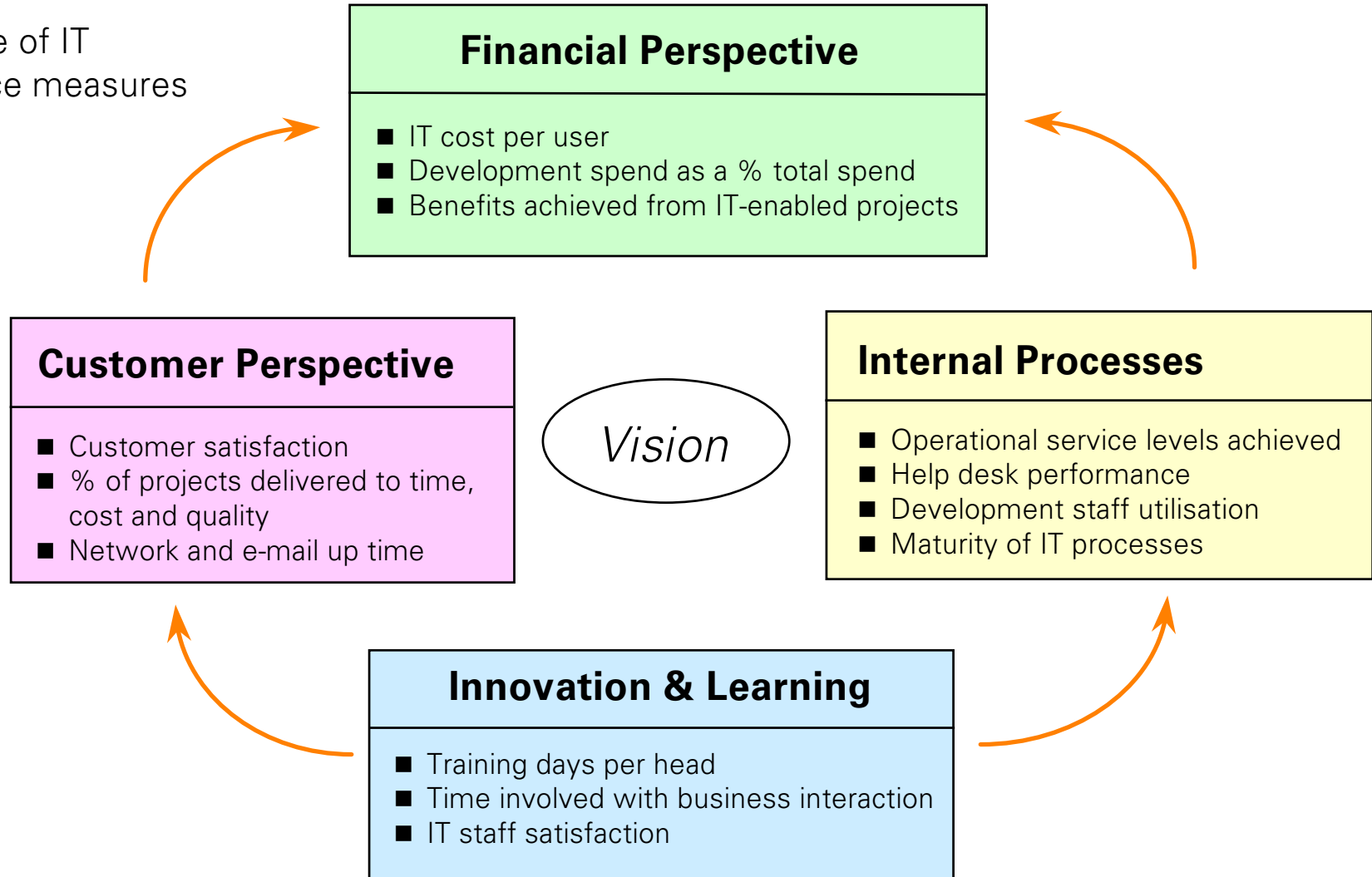


- Have mechanisms for IT to keep close to them
- Measure satisfaction *and* be seen to take actions as a result
- It can be helpful to agree service levels for operational IT service, but ensure you can have a meaningful debate on service levels vs costs
- Greater standardisation of desktop = lower support costs
- Be proactive in identifying training needs from help desk statistics

Communicate, communicate, communicate ...

Finally to manage all this – we need to measure IT

An example of IT performance measures



However, keep it simple !

In summary, to increase value, focus on ...

- Having a clear strategy – business and IT
- 80/20 rule
- Holistic approach to initiatives – people, process and technology
- Have a balanced view on risk
- Get close to the IT customer and listen
- Measure to manage

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