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## Well-Tailored IT

Develop a sophisticated, more strategically oriented information technology approach.

BY PETER BURNS, DAVID HOVENDEN,  
AND MARK JOHNSON

# Well-Tailored IT

## *Develop a sophisticated, more strategically oriented information technology approach.*

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**Chief information officers and other IT leaders have had their hands full** during the past few years, coping with disruptive change. The global economic downturn has limited the technological investment available to most companies. Because of an aging workforce and insufficiencies in science and technology education, the overall skill level of the IT talent pool is declining. Mergers and acquisitions have forced IT functions to link up ill-matched technologies from different legacies. Vendors are rapidly consolidating as well. Employees demand access to mobile devices, tablets, and social media. The growth of cloud computing and the acceptance of software-as-a-service, while sharply reducing costs, have added a new level of complexity to IT strategies and raised questions about information security. Advances in robotics and digital fabrication are beginning to have an effect on prototyping and supply chain practices.

Meanwhile, the demands placed on IT functions by most companies have increased in scale and number. IT leaders are expected to simultaneously improve the quality of the services they provide, keep up with

technological advances, reduce errors and mishaps, simplify the customer and employee experience, protect the company against cybersecurity threats, embrace openness and social media, and realize the benefits of digitization—all while spending less. The net effect has been a rise in sophistication, and the outsourcing of many formerly transactional services. In the near future, IT leaders and employees in most large businesses and government agencies will work on activities such as predictive analytics—setting up systems that capture information in real time and using these systems to enable better decisions or to program automated customer-tailored responses. IT staffers who specialize in more familiar tasks (for example, coding or providing tech support) will end up moving to dedicated outsourced organizations that are equipped with the scale to offer those services more effectively and inexpensively.

A sophisticated, strategically oriented IT function is a desirable goal for any company. It's especially desirable when the business's distinctive capabilities rely heavily on information technology. If you are a chief information officer (CIO), a chief technology officer



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(CTO), or any other senior IT leader, you need to make the same kinds of disciplined choices for your department that the CEO and top leadership team are making about the strategic direction of the enterprise.

When redesigning their function, IT leaders tend to look for guidance outside the enterprise, toward the experts and acolytes of leading-edge technology companies. But their generic advice on IT strategy, by its nature, does not take into account the circumstances of any particular company. Therefore, it leads to a merely transitory advantage. For example, you might be told that companies should focus their IT strategy on serving customers; or to outsource as much as possible to keep costs low; or to be "strategic," which means focusing on long-term projects tied to corporate priorities. All of these approaches will work well for a while, because they help to focus the IT function in some way. But as product lines shift, technologies evolve, customers migrate, business processes digitize, and strategies change, the organization starts making demands for new services and new technologies, and the focus dissipates again.

**Six Value Drivers**

We recommend a process for discovering and putting into place a coherent focus for the IT function targeted to the particular value proposition of your company. It starts with a look at your current offerings, and how they provide value. We have identified six ways for IT to create value for an enterprise through the improved deployment of technology (*see Exhibit 1*).

These six value drivers remain consistent priorities for IT functions, no matter what changes take place in technology, business, regulation, competition, and global markets. At the same time, IT leaders have dis-

covered that no single organization can possibly excel at all six of these drivers. Each requires its own form of investment and competence.

Thus, in many organizations, these value drivers are locked in some degree of tension with one another. Attention to cost-effectiveness is seen as a curb on quality; eager responsiveness may seem to undermine the independent thinking needed for innovation. Each value driver is worthy in itself, but together they add up to incoherence—for the IT function, and for the company as a whole.

The first step in your analysis should be to assess your current situation. Which of these value drivers represent strengths in your organization? In which of them do you have weaknesses or gaps? Which are in conflict with one another? Where do you feel the greatest demand from the larger organization, and how well are you meeting that demand? To help them conduct this analysis, some companies have ranked the value drivers according to how well the IT department can deliver them.

The value drivers show what you're doing now. But they do not define your primary role going forward, which is to help create and sustain the differentiating capabilities that the enterprise needs most. This role is not focused on issues solely related to information and communications technology (ICT)—providing technical services, keeping up with developments such as cloud computing, fixing problems in business systems, or making sourcing decisions. Rather, it is focused on contributing to the enterprise's strategy. Thus, as your second step, you must build a richer understanding of your organization's strategic imperatives—its value proposition in the market if it is a business, and its core

## Exhibit 1: IT Value Drivers

By making commitments to deliver some of these six benefits, an IT department can notably increase the impact of its contribution.

TYPICAL COMMITMENTS	VALUE DRIVER	EXAMPLE
<b>COST-EFFECTIVENESS</b>		
<ul style="list-style-type: none"> <li>• Maintain IT costs below those of competitors and below industry benchmarks.</li> <li>• Consistently improve cost metrics.</li> <li>• Prioritize investments to optimize strategic relevance and differentiated capabilities; reduce investment in other activities.</li> </ul>		A large discount retail chain maintains a single simple, consistent IT system for all operations, tracking expenses closely and increasing investment only in those few areas that affect its critical capabilities (such as optimal customer service).
<b>QUALITY</b>		
<ul style="list-style-type: none"> <li>• Reliably meet or exceed established levels of business service.</li> <li>• Ensure compliance with regulatory, security, privacy, and risk policies.</li> </ul>		A multinational industrial manufacturer depends on fine-tuned robotics and logistics applications that require intensive, world-class operational excellence.
<b>RESPONSIVENESS</b>		
<ul style="list-style-type: none"> <li>• Maintain effective service delivery with a high level of transparency and engagement with internal clients.</li> <li>• Anticipate and prepare for changes in internal demand, through intimacy with other parts of the enterprise.</li> <li>• Continually broaden and deepen knowledge of business needs and priorities.</li> </ul>		A financial-services company must shift its design and operations to become more consumer-oriented. This requires intensive collaboration between the business leaders and the IT department to make sure the back office can do everything the front office needs.
<b>AGGREGATION</b>		
<ul style="list-style-type: none"> <li>• Establish and manage effective partnerships and contractual arrangements with technology and service providers.</li> <li>• Leverage these partnerships to extend capabilities and support the delivery of business needs.</li> </ul>		A global automotive company has innovation and manufacturing sites on several continents, and needs expert IT services in all those locations, sourced and coordinated by the IT function.
<b>AGILITY</b>		
<ul style="list-style-type: none"> <li>• Maintain the ability to change services rapidly—scaling them up or down, executing new initiatives, integrating new acquisitions, etc.</li> </ul>		A consumer products company is continually on the prowl for ways to smooth its supply chain and provide better customer service and social media engagement. The IT department turns on a dime, so that employees always have new tools and opportunities to learn how to use them.
<b>INNOVATION</b>		
<ul style="list-style-type: none"> <li>• Develop new business products and services that relate to the organization's purpose.</li> <li>• Be an early adopter of innovative technologies that support business agendas.</li> </ul>		A high-end retailer creates its own distinctive combination of online ambiance and retail store design, symbolized by its roving salespeople with mobile checkout devices. People frequently return to its stores to see what new type of computer-based service has been introduced.

Source: Booz & Company

mission if it is a government agency or a not-for-profit organization.

Each enterprise has its own unique mix of capabilities, but all enterprises have one thing in common: The IT organization plays a significant role. It contributes to—or even co-creates—the company’s differentiating capabilities, working with the other functions that are responsible for them, developing solutions, and leading the way across the gap between where the organization is and where it needs to be. For example, supply chain logistics is a key differentiating capability at Avon Products, and its IT department played a critical role in making the company truly world-class.

IT is also a primary enabler of those less strategically relevant capabilities, such as basic production and distribution, which are competitive necessities if a company is to remain viable in its industry. For example, every financial-services institution needs to process transactions quickly and accurately. The IT department must be able to ensure this ability without putting more money and time into the effort than necessary.

### Five Archetypal Agendas

In a typical IT function, dozens or hundreds of activities must be thought about in this context: Are they part of a differentiating capability, or are they competitive necessities? To develop an internally consistent approach, it is helpful to think of the strategic role that the IT function plays as an archetype: a well-established identity for your department, which guides the agenda for the function, influences the way it operates within the enterprise, and defines and clearly communicates the contribution that it makes to the strategy.

There are five archetypal agendas to consider (*see Exhibit 2*). Each is named for the way it resolves the tensions that exist among the IT value drivers.

- **Value player.** Focused on cost and efficiency, this IT department has mastered standardization and basic functionality, rolling out each service as broadly as possible to maximize the return on investment while greatly limiting the number of products, variations, and services. If your company is an overall value player, distinguishing itself through low prices, this IT agenda is usually a prerequisite for success.

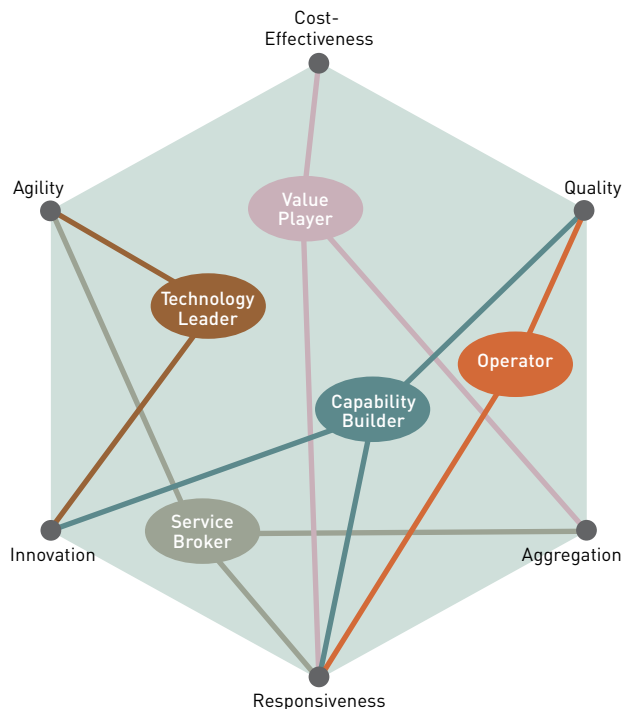
- **Operator.** This IT department focuses on providing high-quality service with low risk by emphasizing execution and operational excellence. It is valued in companies that depend on technology to avoid mishaps and damages, or to maintain high volumes or extra reli-

ability. If you pursue this agenda, you may need to resist the temptation to overinvest; world-class technological excellence may not be justified, especially if it comes at extra cost.

- **Technology leader.** Drawing on advanced technological prowess, this IT department provides leading-edge support for innovative products and services, enabling the company to gain a first-mover advantage.

### Exhibit 2: IT Archetypes Mapped against IT Value Drivers

Links show how different functional agendas (the ovals) can contribute in very different ways to the enterprise.



Source: Booz & Company

# The IT departments at two airlines might take on completely different agendas.

This type of agenda might help your company cross the “capabilities gap” most effectively to become a truly differentiated enterprise.

- **Service broker.** To provide scale and consistency (typically to global companies with multiple outsourced providers), this IT department integrates services from external vendors into an end-to-end customer-facing solution. This agenda can enable your IT function to work closely with other internal functions, and with outside groups, to develop a distinctive set of capabilities.

- **Capability builder.** This IT department is closely involved in the design of new practices and processes that enable a larger corporate strategy. The agenda goes beyond a purely functional shared-services role; you become, in effect, a strategic partner to the CEO and top leadership team, helping determine what differentiating capabilities to invest in.

All five of these roles are viable (unlike some other roles, such as that of a pure service provider, which are likely to be outsourced). Ultimately, the role you adopt will depend on the enterprise strategy of your company. For instance, the IT departments at two airlines might take on completely different agendas. A long-haul airline that sets itself up as a premium experience provider might want to invest in having a technology leader IT function. That would enable it to have highly customized technological platforms: a customer relationship management (CRM) system that seeks to link customers to the airline for life; a way to rapidly prototype new cabin designs and logistic innovations; and a rich online presence with dynamic content. These systems would combine to distinguish the airline in service and sophistication, with prices just low enough to show premium customers (who are tracked through CRM and contin-

ually given tailored offers) that they are getting bargains in this context.

Another airline, providing no-frills service at low prices, would need a value player IT function. This function would outsource most operational and back-office activities; impose strict controls over demand management; set up basic, low-function personal computers for its ticketing and check-in staff; and drive lower costs through a self-service website.

Your IT function does not have to take on one of these roles exclusively. The roles can be combined to craft an agenda for your IT function that closely matches the capabilities system your parent company has established. A global discount hotel chain, for example, might develop an IT function that combines the value player and service broker archetypes. If your company’s overall strategy changes to meet shifting external conditions, your IT organization’s basic agenda will probably change along with it.

By focusing on an IT agenda, CIOs and CTOs can exercise choice. They can more easily be fit for purpose: providing the capabilities the company needs most, while still maintaining the other attributes that enable the entire enterprise to create value. No IT function can provide everything that a business might demand, but functional leaders can determine the attributes that matter most. They can then use an archetypal role to provide the services that are needed, in an effective way that everyone understands. ✦

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