



Beyond Labor Arbitrage to Achieving Business Value from IT

**Capturing Untapped Business Value from IT with
Freeborders Profit Methodology**

by Michael Keating

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Business without boundaries™

To compete in today's ultra competitive market, companies have to change how they think, plan and execute IT. To quote technologist Nicholas G. Carr, one of the leading thinkers on information technology – “The way you approach IT investment and management will need to change dramatically.” An assessment of this bold statement from Mr. Carr demonstrates how radically the stakes in the IT game have changed, especially related to the management and execution of IT.

Winning the game has significant implications and a fundamental impact on the bottom line of any organization. CIOs and senior IT executives are under increasing pressure and scrutiny from their board of directors, executive management (CxOs) team, and business unit managers who demand tangible business value from their IT investments. The #1 complaint heard from IT leadership is that they cannot meet the expectations of the business. This group must adopt a new mindset of merging thought leadership, business acumen and technology. This new way of thinking will help the IT organization work in collaboration with their internal business customers to engineer business value into any IT initiative. This results in “moving the needle” on what keeps the CEO and the Board awake at night – revenues, profits and competitive advantage.

According to CIO Magazine, the average CIO tenure dropped in the 2008 State of the CIO poll to just over 4 years. This poll supports that low CIO tenure can potentially be attributed to the failure of IT's ability to deliver clear business value of their initiatives. Secondly, IT's inability to clearly articulate the business value of an initiative has the critical impact of losing business stakeholder support at the most critical time – when the implementation requires change management, adoption or a new way of getting things done.

As further validation, a study conducted by Giga Information Group (now part of Forrester Research) notes that management sees little IT spending creating any new value. In fact, that same report found management viewed only 8.33 percent of the IT budget will create new value. 8.33%! As a first step, organizations should candidly consider where they are on a value creation continuum versus the role of the IT organization.

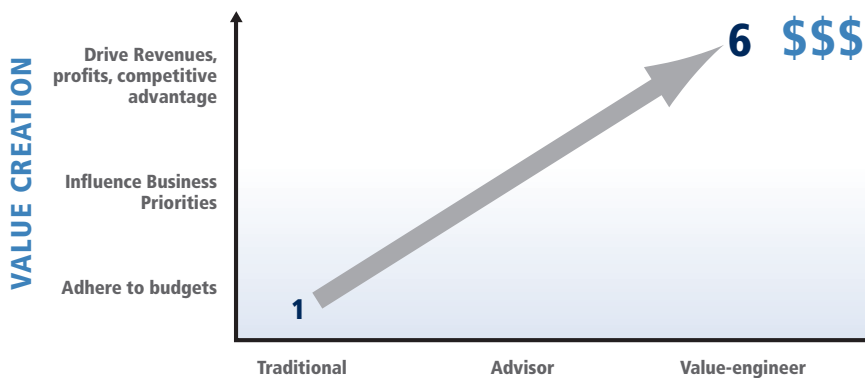


Figure 1: IT's role and perception has a direct impact on value creation for the business

Business Perception of IT's Role

Within the IT organization, the **Traditional** role mentality follows where the business dictates the IT budgets, prioritizes how IT dollars are to be spent, or gives free reign to the IT department to set their IT agenda in a vacuum (typically known as a black box approach). Under this scenario, IT has little influence on business priorities and process. Consequently, the role is primarily one of receiving business requirements for execution with value creation centered on adherence to standards, budgets and schedules. Value creation is assumed to be intuitive or based on other company experiences (“this competitor achieved these results, so will we”). Based on years of experience serving IT and business, Freeboarders estimates that more than 90% of organizations fall into this category.

An IT **advisor** often sits at the table when business priorities are being discussed and tends to wield more influence during the planning and execution. The IT advisor adds value as a navigator and influences priorities and decisions. This individual possesses a respected blend of IT, leadership and persuasion skills. The majority of the remaining 10% of firms fall into this category.

A *value-driver* or *value-engineer* is sought for expertise in aligning IT to drive direct business value for the firm. This person brings to the game a combination of IT prioritization, road mapping skills, business smarts and a methodology to identify and capture untapped business value. In this role, he or she must drive material value for the firm, demonstrate the impact of IT on business (revenues, profit, competitive advantage), and roll up other measures that tie directly to the CEO, COO and CFO accountability. Finding a value-driven/value-engineering culture is a rarity in IT organizations, but the industry is starting to realize the effect of this ability on directing driving higher returns on IT for the enterprise.

Fundamentally, value can be designed or engineered into any organization, project or process at the thinking and planning stages. This changes both the organization of projects, execution and allocation of resources to derive maximum value creation for the company. This is an “Aha” moment for most firms. On the flipside, the lack of identifying and injecting value into the process can lead to high failure and lower adoption rates for any IT or business initiative. Unfortunately, this is the status-quo today. But that can change once organizations realize they have the power to change and an approach that is credible, teachable and scalable.

Take the Value Creation Test

As a first step in the process, an organization needs to candidly assess its current position on the value creation continuum. Assess honestly and candidly on a scale of 1-6 for each question and average the result to receive a rough, non-scientific idea where your organization places on the continuum. A score of 1 equals “not at all” and a score of 6 equates to “every time”.

1. **Measurement:** Is your IT organization measured on contribution to revenues and profits?
2. **Influence:** Does your IT organization have a seat at the table and direct influence with your business colleagues when business priorities are being set?
3. **Direction:** Do you have weekly business discussions with your internal customer on their challenges, objectives and plans? Do you have at least one monthly discussion with your external customers on the same? These are not IT discussions.
4. **Execution:** When adoption requires a change of process, do your business colleagues consistently support you to get through the tough times of change management?
5. **Value-based:** Are your people, process and technology initiatives tied to a credible business case that both IT and the business have jointly developed, agreed upon and have shared accountability?

If your organization scored a 6, read no further and call this humble white paper author who has much to learn from you. If the score is between 1 and 4, there is great opportunity to improve and a 5 is a continuous improvement candidate. For those in the range of 1 to 5s (and the 6's, too), the hope is that the ideas in this paper spark a movement of change within your organization.

And one last thought for consideration – it should not take a major event such as a crisis, a merger or acquisition, a new corporate mandate or a formidable competitor to react to the need to enhance IT value. To win the game today, ask yourself if you want to drive value or place your efforts in the hands of others. To place the need for value creation in perspective, here is an excerpt from Andrew Grove’s book “Only the Paranoid Survive:”

Sooner or later, something fundamental in your business world will change. I’m often credited with the motto, “Only the paranoid survive.” I have no idea when I first said this, but the fact remains that, when it comes to business, I believe in the value of paranoia. Business success contains the seeds of its own destruction. The more successful you are, the more people want a chunk of your business and then another chunk and then another until there is nothing left. I believe that the prime responsibility of a manager is to guard constantly against other people’s attacks and to inculcate this guardian attitude in the people under his or her management.”

The remainder of this paper discusses some of the thinking around building high performance initiatives, processes and organizations with a methodical approach to engineering value into any initiative. That blueprint is the Freeboarders Profit methodology and it brings business discipline to IT and helps organizations find value and unlock its potential to drive business growth and profits.

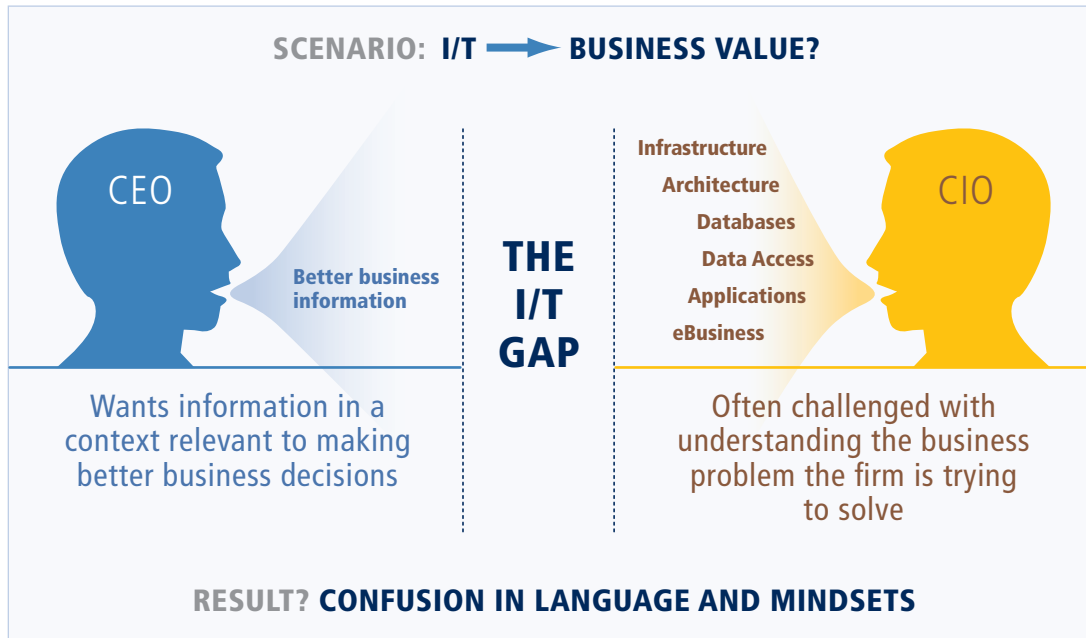


Figure 2: Business and IT speak different languages

A Common Problem – Getting the CEO and CIO to Speak the Same Language

For the CEO, business is money...revenues and profits. A typical CEO might say or think: “My worth is measured by moving the needle on growth, profits and competitive advantage for my company. I have to introduce new capabilities faster than my competition, streamline business processes, improve service levels and reduce costs. IT can help me by providing business solutions that enables those objectives faster, better and less expensively.”

The CIO may say or think: “I am paid by delivering IT services and maintaining the infrastructure for my internal business client at an agreed upon budget, schedule and quality. Common platforms and project prioritization is key. Business can help me by giving me the resources to make sure our infrastructure and delivery capabilities are sound.”

This chasm of skills and a process to achieve a common understanding is at the root of nearly all underperforming IT organizations. More importantly, there are proven approaches to bridge this gap.

Success Story – Spurring more effective Business to IT Communications

A U.S.-based leader in online financial services directed to consumers needed to quickly adapt their business model in line with a changing market driven by the credit crunch crisis and shift in consumer behaviors. Freeboarders was assigned to assess the current organizational and process challenges to execute the top business objectives and tie them to IT delivery. Using a series of one-on-one and small group work sessions to bridge the IT to business dialogue, Freeboarders interviewed several members of the leadership team – the consistent theme of bringing new products and services to market faster emerged from the discussions. From the Director of IT to the VP engineering to the CIO to the CFO and CEO, it was the same story. Speed of product and service introduction is everything. Freeboarders then asked the question “If speed is critical to the corporation’s strategy, has anyone calculated the time value of a week?” Everyone understood the question, but no one had equated speed to revenues, profits and competitive advantage.

A simplistic view of capturing time value is represented below. The analysis compares the current business plan with the planned resource allocation and expected revenues versus leveraging an optimized/expanded mix of resources that would result in bringing in some products and services earlier and the potential revenues and profitability derived from that approach. This was completed in a one hour discussion with the CFO and a brief joint workshop with the business development director for this business unit and two key IT stakeholders.

\$ IN MILLIONS	YEAR 1	YEAR 2	YEAR 3
Revs	\$700	\$1400	\$2800
Operating Profits	1-2%	10%	15%
Profit \$	\$14	\$140	\$420
P/E Multiple	10	10	10
Market Cap	\$140	\$1400	\$4200
Additional Speed	3 weeks	6 weeks	9 weeks
Revenue Lift	6.76%	10.61%	14.12%

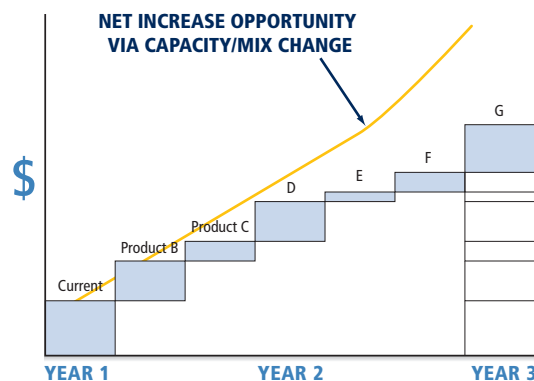


Figure 3 & 4: A simple analysis of revenue, profit and market-cap impact of increasing speed-to-market via optimizing client employee and offshore resource mix

While a simplistic approach, this model accomplished two goals for the client:

1. Provided critical understanding of the business impact of increasing speed of IT to the key stakeholders. This approach instilled a sense of *willing urgency*.
2. Built the foundation to re-prioritize resource allocation according to *time value impact*. This directly aligned IT to the business objective in a manner in which all stakeholders could identify and understand.

The Freeborders Difference – Profit Methodology

Organizations that are seeking a clear cut method for engineering value from IT should consider a proven methodology that helps them prioritize investment options, make data-driven decisions, and monitor progress. It goes beyond using purely financial criteria to encompass business value and what Freeborders calls Profit.

The Profit workshop brings together a blended team from the client that includes representatives from both the business and IT operations. Freeborders then facilitates a collaborative discussion purely focused on creating value for the client. With a whiteboard session built around thought leadership, extreme creativity, and candid where we are and where we need to go discussion, the end result is consistently “Aha” experiences and new ways of doing business.

Through this highly collaborative discovery process, corporate and IT buy-in becomes more seamless and charts a value roadmap that both business and IT can drive together. Freeborders creates a phased timeline to implement the new capabilities and help the organization derive the incremental value. What is unique here to many other business value approaches is the speed and intensity at which the methodology identifies value creation for the client. Most sessions are a half day to a full day with the client and Freeborders thought leaders.

Unleashing Value with Profit through Value Engineering

For ProfitIT to succeed, true business value must link people, processes and technology from the implementation to the final deliverables. This includes optimizing speed to market, investment allocation and business – the ultimate end goal being overall IT alignment to optimize business impact, credibility and relationship of IT with their business customer.

Success is measured by jointly agreed upon metrics with identification of performance levers. Performance levers are tasks or activities in a process, project or organization that when tweaked have direct correlation to moving the needle on metrics. These are predictive measures.

Profit in Practice – Entertainment Publications Optimizes IT Resource Allocation by Aligning to Business Strategy

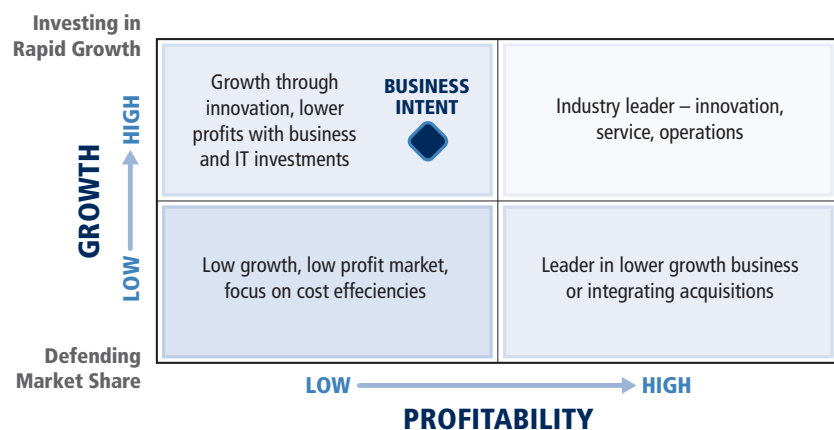
Headquartered in Troy, Mich., Entertainment Publications is a leading provider of promotions and discounts. Best known for the popular Entertainment® book and savings site, Entertainment.com, the company helps people get more for their money by providing them with billions of dollars in discounts every year. Over the course of the last eight to 10 years, Entertainment Publications has evolved from a book publishing and fundraising business into an online membership model targeting end users through intense online marketing. With the new online model, the need to align IT with business quickly emerged as a central theme of Entertainment Publications overall strategy.

Entertainment Publications enlisted Freeborders ProfitIT one-day workshop to guide them in deploying its new strategy. Attendees in the workshop included the CEO and a majority of the senior business and IT leadership team. It is rare that such a senior business team is involved for the entire workshop, but the results proved the value of doing so. Freeborders assigned 3 thought leaders, one of which facilitated the sessions. The format was a creative, high intensity whiteboard work session with a summary agenda of a mix of business and IT topics:

- Competitive environment – SWOT
- Business challenges, objectives
- Strategic positioning of the firm
- IT challenges & objectives
- Current resource allocation versus the strategic position of the firm
- New capabilities
- Business impact
- Preliminary Roadmap

Several “Aha’s” emerged from this session. One piece of work which proved particularly powerful was how well the IT organization and spend was aligned to the business strategy. Simple analyses of business growth plans versus profitability versus peers allowed us to compare their IT spend to where it should be considering their business strategy. The business intent was to capture higher portion of market share and hence grow the business.

Figure 5: Entertainment’s business strategy was to grow the company, partly through innovation



To analyze the alignment of IT to this business strategy, we assessed the current and planned spend. We did this through a simple approach of segmenting the current spend into 3 major categories:

1. **Lights on** – maintain current systems
2. **Upgrade** – new features to current capabilities
3. **Innovate** – new products, services, markets

Entertainment Publications was allocating about 95% of efforts to maintain the business, 4% upgrading and less than 1% innovating or creating a new future. With a growing new product pipeline, Entertainment Publications quickly realized that more attention was needed to innovate and change the game. This was an “Aha” realization for the leadership team. “I intuitively knew that our IT spend and results we were not aligned to maximize contributions to our business. This analysis put it in black and white and made it very actionable” stated MaryAnn Rivers, CEO of Entertainment Publications.

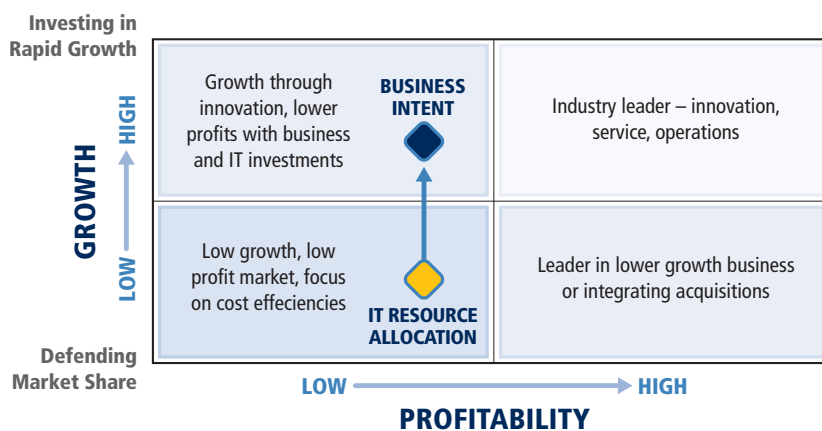


Figure 6: Comparison of IT resource allocation (spend) to business intent (plan).

The ProfitIT workshop and analysis helped Entertainment Publications understand how resource allocation impacted business outcomes and set the foundation for a communications platform to change how resources are allocated. All of this was accomplished in a spirited, high energy business and IT debate between Freeborders and Entertainment Publications.

MaryAnn and the VP of technology, Roger Valade rolled out the new three pronged delivery strategy to the company and it was openly welcomed by IT employees who were freed to work on the more creative, and revenue building, new product launches while Freeborders took over lights on efforts most cost effectively. Entertainment Publications saw a boost in morale, enhancement in productivity and commitment to play their part in leveraging the new game plan as a critical, fiscally responsible growth initiative.

The process has given Entertainment Publications the opportunity to extract the maximum value from its IT organization and aligned it with its overall business operations to drive future growth. Based on the initial ProfitIT workshop, Freeborders has delivered a value-centered IT strategy to Entertainment Publications and eliminated bottlenecks that were impeding its product development initiatives.

Entertainment Publications has embraced the flexibility and scalability of the Freeborders model and gained significant cost and productivity efficiencies. According to Ms. Rivers, Freeborders is a trusted business partner that can ramp up quickly to support any new strategic initiative that would entail a major IT effort.

How to drive business value from IT – Leveraging Profit for your Organization

The Entertainment Publications story validates the inherent value of Profit. The Profit workshop includes a team of four to seven people from the client from varied disciplines and two to three thought leaders from Freeborders. Goals, roles, scope, agenda, desired outcomes are agreed upon jointly. A typical initial workshop lasts about 4 hours and focuses on a cross section of IT challenges in the context of the business, objectives, SWOT, new capabilities with estimated impact and an agreed upon roadmap to capture the opportunity. Profit is built upon the three pillars of people, process and technology. Our clients consistently tell us that the people and process pillars tend to be the most challenging to improve and of course have the direct impact realized in delivering on the third pillar, technology. Most Profit workshops generate multiple “Aha’s” related to building high-performance teams and processes.

The process that the participants go through to get to the “Aha’s” is a short journey from cautiously optimistic or passive resistance to open consensus to alignment. The approach ensures contributions and concerns are voiced and addressed – one of the most powerful methods to achieve organizational alignment. The ultimate trophy for any organization is a renewed commitment and joint accountability from business and IT to optimize the value a business can derive from technology.

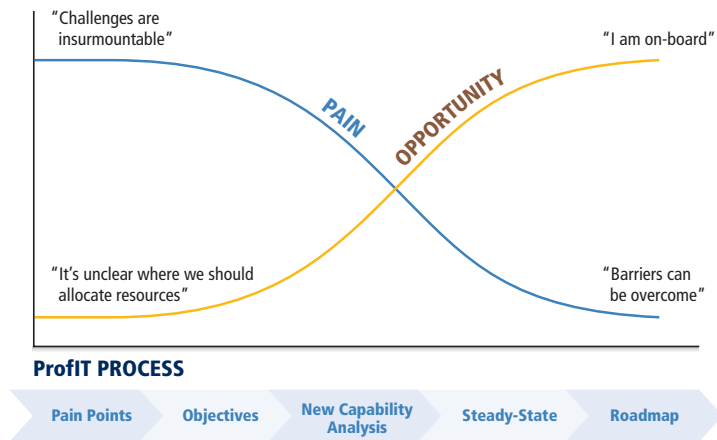


Figure 7: Profit approach builds IT and business consensus



Freeborders has led nearly 100 collaborative Profit workshops identifying \$100's of millions of untapped value for clients in Asia, Europe and North America. Clients range in size of revenues from \$100 million to \$200 billion. For more information on Profit, please visit www.freeborders.com/profit.

About Freeborders

Freeborders is the leading global provider of offshore IT services and solutions delivered from centers of excellence in China. Privately held and based in San Francisco, CA, Freeborders is recognized for offering best practices in outsourcing by combining its award-winning global delivery model, CHINDUSSM, with its governance model ATLASSM. Freeborders provides a full suite of services that encompass all phases of a project lifecycle including strategy, design, development, testing, implementation integration, and extended support. Freeborders is assessed at Level 5 of the SEI's CMMI, and is ISO 27001 certified.

About the Author

Mike Keating is the head of Global Business Development for Freeborders and leads the Profit Value Engineering Institute for Freeborders. Profit is Freeborders' proprietary approach to engaging with customers to identify, quantify, and realize business value from technology investments. Keating has worked with and advised C-level executives at some of Freeborders' marquee customers. He has worked extensively within the High Tech, Financial Services and Travel industries.

Prior to joining Freeborders, Keating developed a broad area of expertise by holding various consulting and management positions with firms such as Aon Corporation and Cone Manufacturing. Keating graduated with a Bachelor's of Science degree in Color & Imaging Science at Rochester Institute of Technology and has been awarded a US patent for his innovations in digital color and imaging technologies.