

“2009 Crisis Management . . . Using TCO as a Strategic Management Tool”

A series of thought leadership articles for the CIO and executive management

In today’s challenging times, executive management is under pressure to demonstrate that they are keeping costs under control while maintaining effective operations and mitigating risks. Board executives are looking to the CEO and executive management to apply discipline, implement formal methodologies for planning and control, and align corporate resources with strategic goals. To meet these challenges, executive management teams are looking for greater degrees of visibility into their operations, with the ability to control expenditures and measure return on investment.

Adoption of frameworks and methodologies that enable the understanding of full expense and ROI, as well as provide governance over decision-making, are measures that executive teams should be evaluating at this time; measures that will become best practice in the future. Total Cost of Ownership (TCO) is one of the foundational frameworks that companies are adopting today to facilitate greater budgetary oversight and control. TCO is a necessary component of determining ROI, and provides a benchmark for other efficiency and cost-cutting analysis activities. Once implemented, TCO will provide management with an all-in view of costs associated with specific business processes, lines of business, and other corporate business activities.

A recent survey of CEOs at over 250 companies by the IT Governance Institute found that over 75% of the CEOs believe that IT investments bring value to their enterprise. At the same time, more than half of the CEOs surveyed did not believe that they were getting full value from their technology. Looking a little deeper into the detail, a third of the companies responding had no CIO on the executive team, 25% had no alignment between business and IT objectives, and over 40% of the respondents had no way to measure the value of return on their IT investments. In a similar survey by InformationWeek of over 300 CIOs, the number one issue of CIOs was business and IT alignment.

Addressing the above, it is obvious that a lack of information is a cause for the gaps in logic between the individual survey results. CEOs believe that IT brings value, but how do they know? Over half of the CEOs do not believe that they are getting full value from their technology, but what measure have they applied? Over 40% could not measure their return on IT investment, why not? The answer is that they have not established frameworks or metrics that provide visibility into where, how, and why technology expenditures have been made and how each supports business strategy and goals. And without these frameworks, true alignment of business and technology will continue to be out of reach.

Implementation of a strategic management framework as a ‘tool’ to assist the executive team in decision-making is critical to ensure alignment of resources with strategies. The framework should be designed to facilitate strategic decisions, ensure that actions are responsive, and hold members of the executive team accountable, to themselves and each other. A well-crafted strategic management framework is: Strategic, Responsive, and Accountable.

Total Cost of Ownership is a key element of the strategic management framework. Different than straight accounting or budgeting, TCO takes a view of technology expense that is aligned with business processes, activities and products. With a full and thorough understanding of expense associated with specific business activities, the management team is provided with the data that is critical in making fully informed decisions, based upon current or projected ROI associated with the activity. Additionally, TCO can not only be used as an element of analyzing the return on current activities, but can also be used to drive improvement exercises; and as an estimate, TCO becomes an element of strategic planning and decision-making.

Application portfolio, business architecture, and expense are the key components of technology TCO. Through the identification of all applications in the corporate portfolio, allocation of expense to each application, and alignment with business function, a clear understanding of technology cost associated with performing a business function or creating a business product can be gained. Using this information in ROI calculations, the management team can gain a better understanding of what value technology expense/investment provides to the company. Further, this data point provides an element of information in management frameworks that helps to drive decision-making related to expense allocation, investment, or cost cutting.

Beyond the advantages provided to executive decision-making, TCO has the potential to shift the way in which IT expenses are perceived by the executive team and business heads. Through alignment of technology expense with business activities and initiatives, the value of technology expense/investment in support (or lack) of the business is visible. This shift can also have the effect of modifying the role of the CIO from that of technologist to one of business partner, as well as focuses the activities of IT on business value and execution. Business unit heads will also have a view into the IT resources and expense that supports their initiatives and activities, and as such are more likely to support or help justify technology expense/investment that will result in significant returns to their business.

In summary, a strategic management framework that includes Total Cost of Ownership (TCO), along with a defined business architecture and active technology portfolio management, will provide executive management with the visibility into their operations that they need to: 1) assess the benefits and risks of discrete business and IT functions, 2) prioritize and optimize initiatives and resources, and 3) revise or refine strategic plans. Additionally, TCO enables management to better align IT with business objectives, while enabling the CIO to shift focus from the detail of IT, to more strategic issues such as budgeting, planning, governance, and risk management.



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