

The logo features the word "FORRESTER" in a white, serif, all-caps font, centered within a dark green oval. The oval is set against a dark gray background with subtle, curved, light gray lines that create a sense of depth and movement.

FORRESTER®

Building IT's Innovation Capacity Based On Business Context And IT Maturity

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Question: How do you define the right level of IT spend?

Theme

Firms should increase IT's maturity to grow IT's Innovation Capacity — driving overall IT spend levels to match the business context

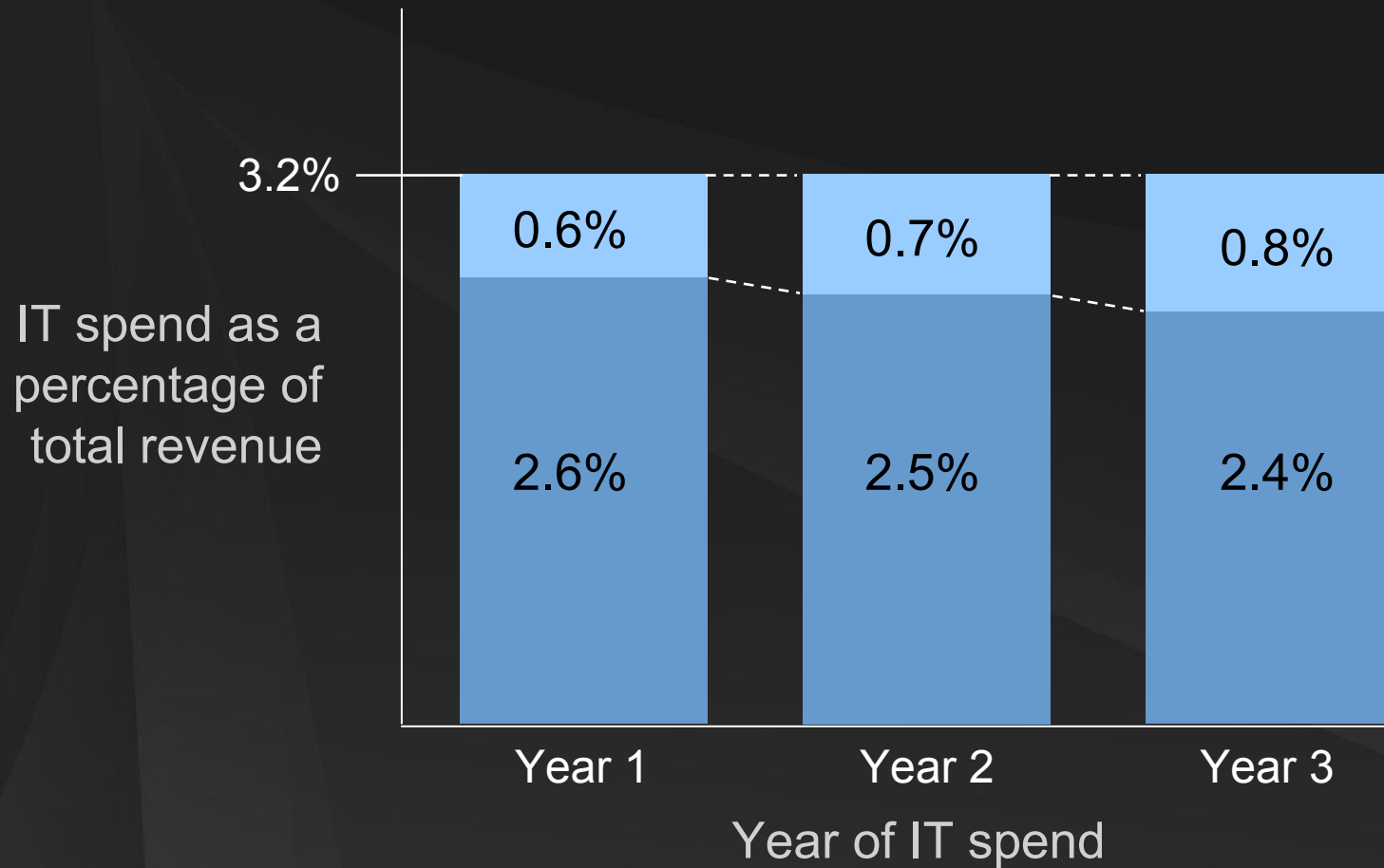
Agenda

- How does IT's Innovation Capacity grow?
- What is the business context for how much IT spend is good?
- How does IT maturity impact IT spend?
- What does IT maturity say about increasing IT's Innovation Capacity?

IT's innovation capacity:

- ▶ The amount of available funds that IT can spend on new initiatives in any given year — typically total IT spending minus IT spending on ongoing operations and maintenance.

With total IT spend constant, Innovation Capacity growth results from the efficiencies of IT maturity



CIOs struggle to explain IT's value

- Overall spending grew in 2004
- CIOs express increased confidence in their industry sectors' health
- Yet CIOs continue to compare their spend to industry averages

But how much IT spend is good?

Industry	IT percentage of total revenue in 2003	IT percentage of total revenue in 2004
Financial services	8.0%	8.6%
Chemicals	4.3%	3.1%
Retail	4.8%	3.7%
Utilities	6.1%	2.2%

Source: Forrester's Business Technographics® June 2003 North American Benchmark Study and Forrester's Business Technographics® July 2004 North American Benchmark Study

Question: What makes your spending vary relative to the industry average?

IT's budget depends on the IT Spending Context

- Technology's role in products and services
- Business volatility
- Organizational structure
- Competitive pressure
- Geographic scope

Calculating an IT Spending Context

Rank your firm relative to your industry average for each category on a scale of one to five. The IT spend context score is the average of these rankings.

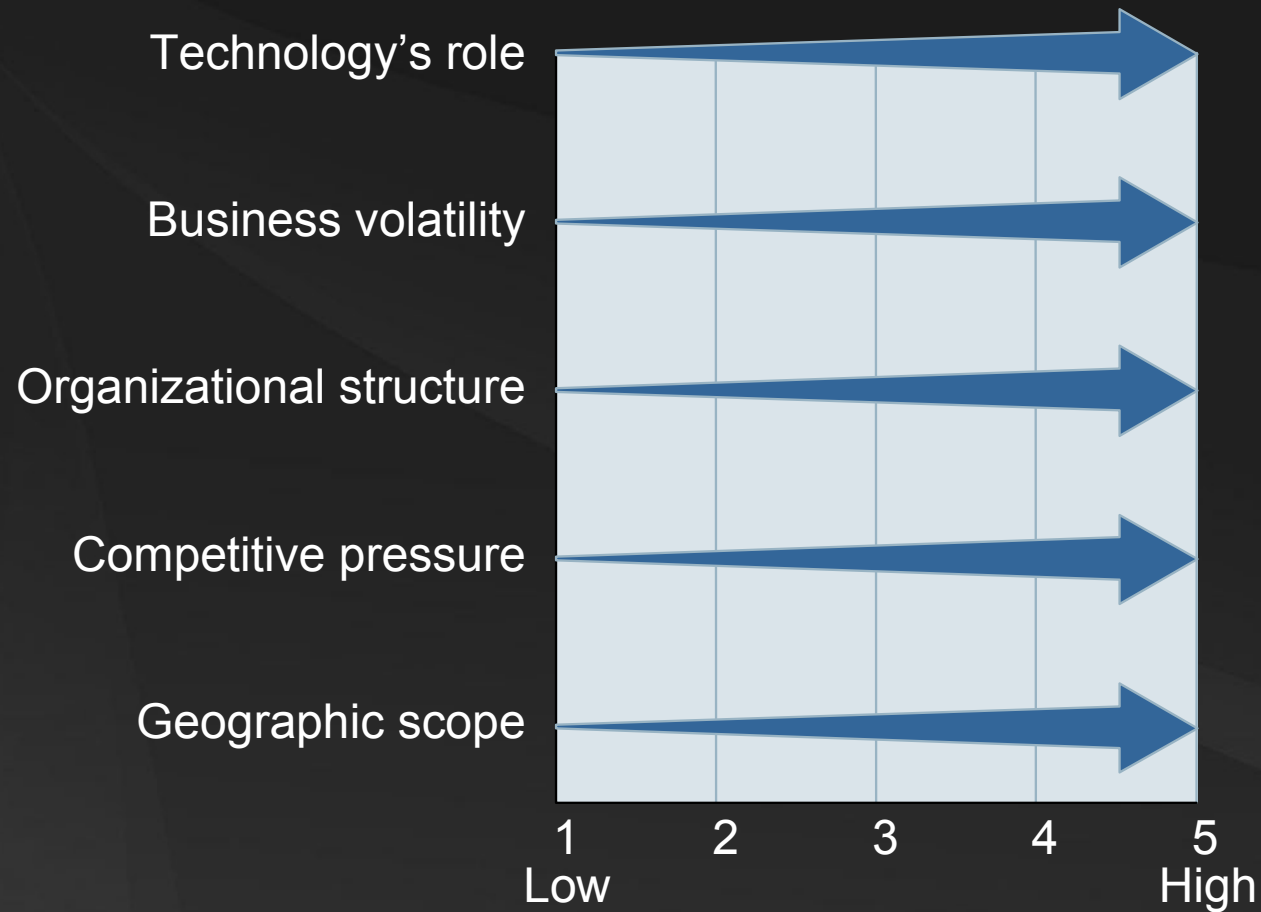
	Low (1)	High (5)	Points
Technology's role in products and services	IT-delivered technology is not core to product or service Ex: Leggatt & Platt	IT-delivered technology is fundamental to product or service Ex: UPS	<input type="checkbox"/>
Business volatility	Firm's scope/structure is quite stable Ex: Dell	Firm's scope/structure is fluid Ex: Verizon	<input type="checkbox"/>
Organizational structure	Firm has highly centralized management structure Ex: IBM	Firm has decentralized management structure Ex: AXA	<input type="checkbox"/>
Competitive pressure	Little competitive pressure for IT investment Ex: John Deere	Significant pressure for technology investment Ex: Fidelity	<input type="checkbox"/>
Geographic scope	Demand for IT is centralized in a single location Ex: IRS	Demand for IT is dispersed globally Ex: Intel	<input type="checkbox"/>

Total =
(max = 25 pts)

Score =
(Total/5)

(score of 25 = 100%)

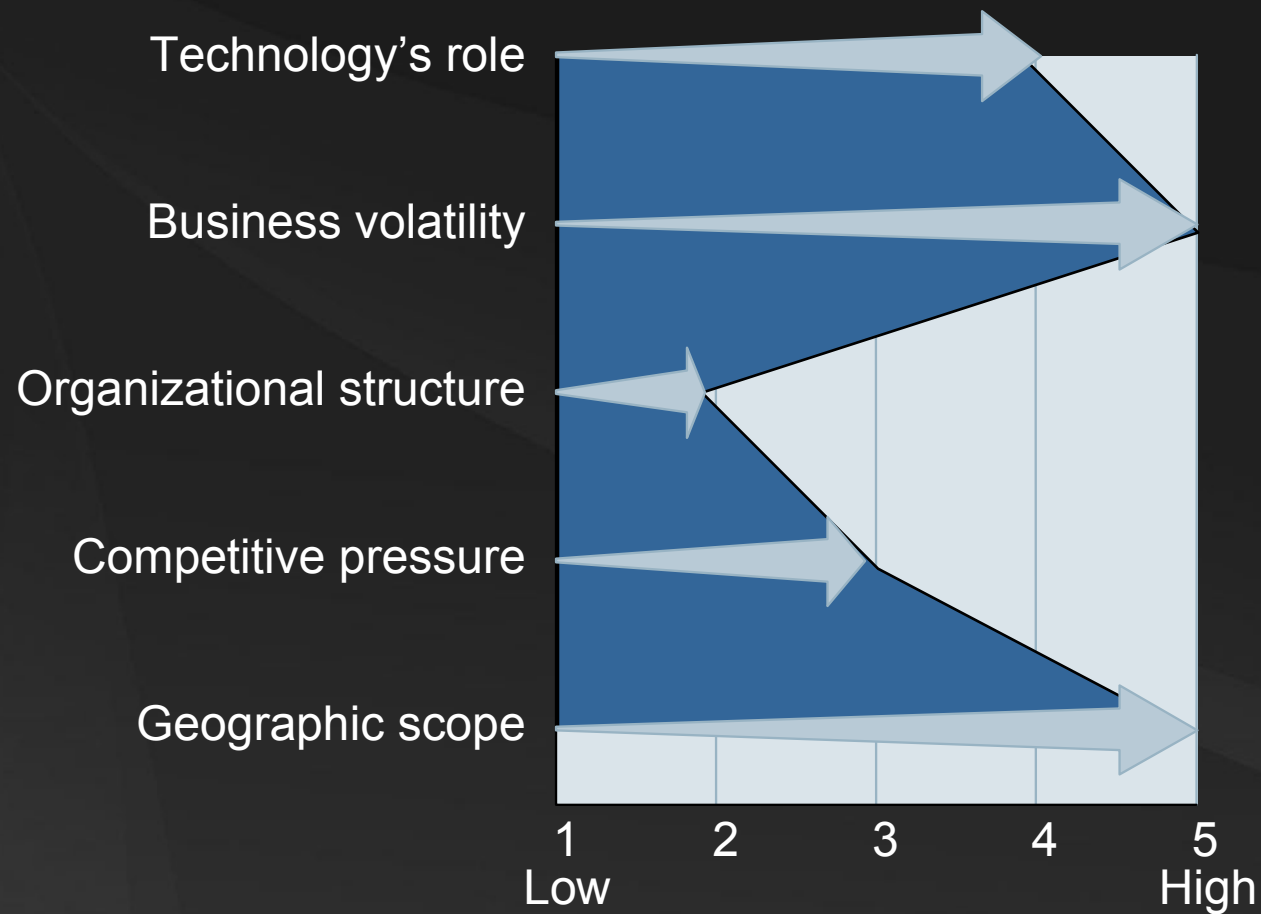
IT spending has no meaning without context



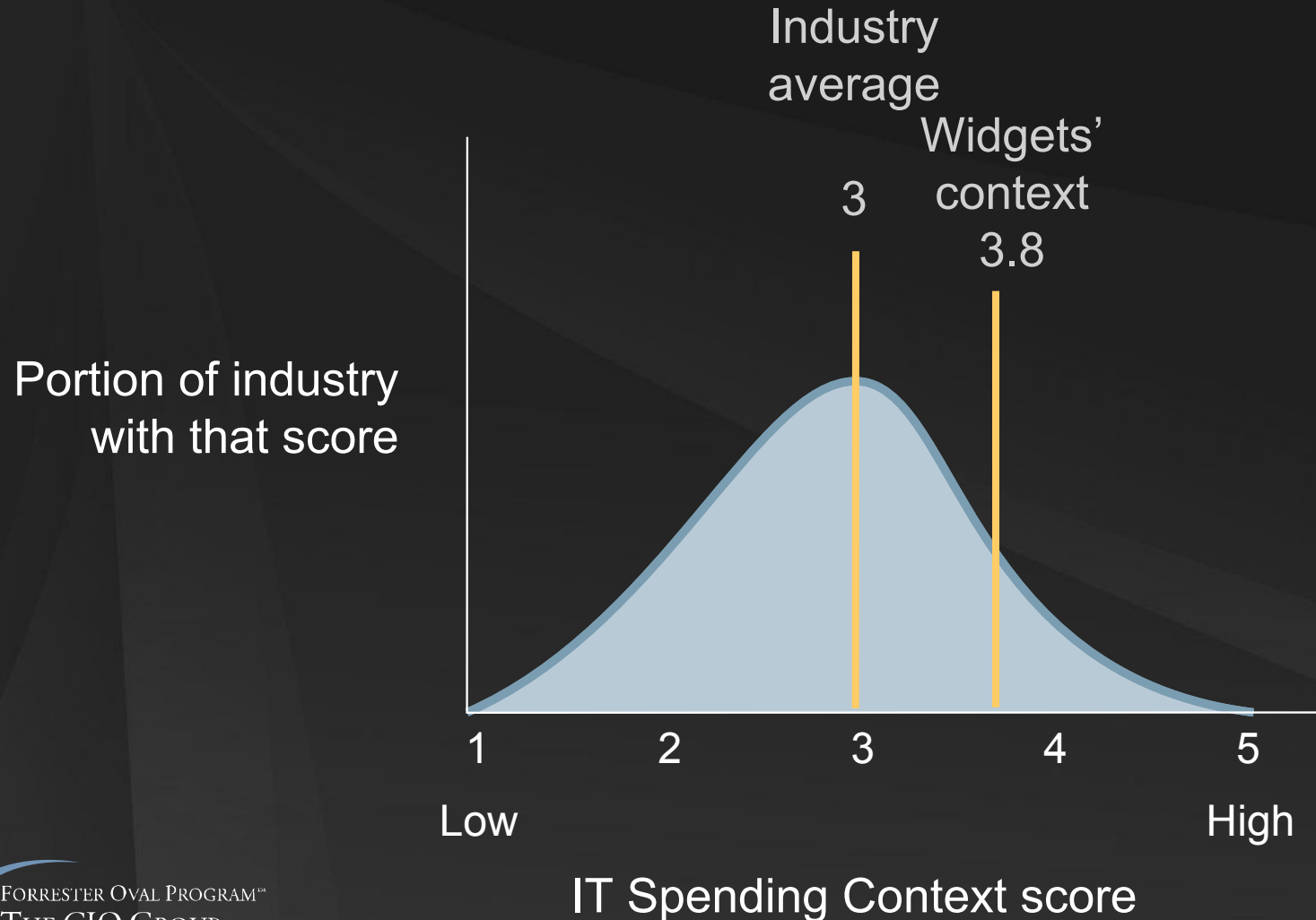
Example: Developing Widgets IT Spending Context

- Technology's role in products and services: Widgets manufacturing depends on IT for R&D technology and demand visibility (score 4)
- Business volatility: Widgets has acquired a firm in each of the past five years (score 5)
- Organizational structure: Widgets' centrally controlled management is forcing its acquired company's application into common financial applications (score 2)
- Competitive pressure: Widgets has a reasonably consolidated market (score 3)
- Geographic scope: Widgets has widely distributed manufacturing plants, some of which include emerging markets (score 5)

Example: Widgets' IT spending context



Example: Widget's IT Spending Context explains how its IT spend should compare to industry average



Exercise: Calculating your IT Spending Context

Rank your firm relative to your industry average for each category on a scale of one to five. The IT spend context score is the average of these rankings.

	Low (1)	High (5)	Points
Technology's role in products and services	IT-delivered technology is not core to product or service Ex: Leggatt & Platt	IT-delivered technology is fundamental to product or service Ex: UPS	<input type="checkbox"/>
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(score of 25 = 100%)

The IT Maturity Index – a measure of ability to deliver

- Linking technology to the firm's business strategy
- IT's maturity as a business operation
- Governance – how IT relates to business stakeholders

IT Economics depend on both context and maturity

IT Spending Context	High	<p>Poorly targeted IT, high demand for IT services</p> <ul style="list-style-type: none"> • Higher than average spend • Business perceives IT as a costly constraint to success 	<p>Well targeted IT, high demand for IT services</p> <ul style="list-style-type: none"> • Average to higher-than-average spend • Business perceives IT as a strategic partner
	Low	<p>Poorly targeted IT, low demand for IT services</p> <ul style="list-style-type: none"> • Average to higher-than-average spend • Business treats IT as an out-of-control cost center 	<p>Well targeted IT, low demand for IT services</p> <ul style="list-style-type: none"> • Below average spend • High business confidence in IT • Business perceives IT as an efficient and dependable resource
		Low	High
		IT Maturity Index	

IT Maturity Index: Linking technology to business strategy

Score 3 for fully capable, 2 for ramping up, 1 for aware but not doing, or 0 for not aware.

Ensure The Strategic Use Of IT

Business and IT link firm's strategy to operating and capital expenditures in IT portfolio

Capital expenditure is treated as a single investment bucket for the enterprise

The majority of IT app investments are made based on strategic cross-unit business processes

IT is recognized as a strategic asset to the enterprise

Calculate The Business Value Of IT

Business and IT maintain a common method for quantifying the impact of technology-based process improvements

Business management partners with IT to do post-production audits of all large projects to verify if business objectives have been met

Business incorporates horizontal IT services like infrastructure operations and desktop support in portfolio prioritization

CXOs drive a structured and repeatable business case model that is consistent across the enterprise

Establish Ownership Of IT Initiatives And Benefits

Executive business sponsors defend IT investment proposals with the CIO by their side

Business and IT both have named, exec-level process owners responsible for realizing the results of technology-based projects

Business execs are accountable for delivering the results from IT projects -- like headcount reduction or process efficiencies

Total

IT Maturity Index: IT's maturity as a business operation

Score 3 for fully capable, 2 for ramping up, 1 for aware but not doing, or 0 for not aware.

Manage IT As A Portfolio

IT maintains a portfolio of costs and benefits for IT spend, including both estimates and actual figures

IT's portfolio includes ongoing operations as well as investments

IT processes services, associated resources, and costs through the accounting system

IT identifies and retires technologies and applications that are obsolete or no longer cost-effective to maintain

Drive Stability

IT documents architecture, project justification requirements and portfolio elements for both infrastructure and applications — as input to investment decisions

IT measures compliance with common operating environment, security policy, and application architecture

IT uses process methodologies (project life cycle, ITIL) to ensure project delivery and quality of service

Measure IT's Performance

IT uses a services model to track utilization and achievement of SLAs for both infrastructure and application services

IT tracks project estimates, on-time delivery, quality, and cost of application projects

IT measures the mix of spend for ongoing operations and maintenance versus new investments, increasing the new investments portion over time

IT uses scorecards and dashboards to create visibility and to drive continuous improvement in operations

Total

IT Maturity Index: IT's relationship to its business stakeholders

Score 3 for fully capable, 2 for ramping up, 1 for aware but not doing, or 0 for not aware.

Ensure Effective Relationship Processes

IT manages internal customer relationships through senior IT staff — business-knowledgeable consultant types — who also report to the business unit's top exec.

The firm utilizes an enterprise-wide, consistent, and repeatable methodology for prioritizing IT-based investments

The business stays actively engaged as sponsors and participants in IT-based projects throughout the project's lifecycle

Guidance for IT budgets comes from an enterprise-wide, executive-level IT governance committee which helps to balance business unit and corporate-wide priorities

Communicate Results

IT translates IT service level improvements — like uptime and system performance — into business metrics

IT regularly publishes and markets its objectives, scope of responsibility, and benefit to the corporation — including items like cost savings, revenue growth, internal SLAs, project performance, and business process improvements

IT is perceived by business unit heads as providing reliable and efficient support for business operations

IT and business units track and drive improvements in accuracy of project cost and impact estimates over time

Lead Enterprise-Level Business Improvements

The CIO helps drive business and technology innovation across the firm — to cut costs, boost revenue, or streamline processes

CIOs drive the optimization of business process improvements across the firm

IT contributes to strategic enterprise programs like One Face To The Customer or Six Sigma

IT Maturity Index scores point to ways to grow IT Innovation Capacity

IT Maturity Index category	IT Maturity Index category score: 20 or greater	IT Maturity Index category score: Less than 20
Linking technology to business strategy	<ul style="list-style-type: none"> IT is most likely recognized as a strategic asset Cross-enterprise investments receive attention and perhaps priority over department requests 	<ul style="list-style-type: none"> IT should make sure that capital processes and investments span business units and that the IT portfolio spans capital and operating expenses IT should question whether there is adequate sponsorship of its investments all the way to the realization of benefits
IT's maturity as a business operation	<ul style="list-style-type: none"> IT is likely to have disciplined processes for maintaining and accounting for its portfolio IT is strong at tracking its own performance 	<ul style="list-style-type: none"> IT should add documented architecture standards to use as a baseline for evaluating appropriateness of the portfolio IT should ensure that it is using disciplined methodologies to do its work and track performance
How IT relates to business stakeholders	<ul style="list-style-type: none"> IT has an effective governance process IT has relationship managers who understand the business and are proactive in driving improvements 	<ul style="list-style-type: none"> IT should become more proactive in ensuring that IT has knowledge of what the business needs through better governance structures IT should boost its role in driving business improvements

Summary

- Firms should increase IT's maturity to grow IT's Innovation Capacity — driving overall IT spend levels to match the business context
- Innovation Capacity growth results from the efficiencies of IT maturity
- The IT Spending Context suggests how a firm's IT spend should compare to industry averages
- IT maturity determines how well a firm delivers on its context
- The IT Maturity Index indicates where to focus IT's efforts to improve IT's Innovation Capacity

Thank you

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