Developing Value-Based Customer Thinking
Asking the 20 Key Questions

Statement

A strategic thinking organization is one that contributes both directly and indirectly, to the organization's ability to execute its business plan. For virtually all organizations, this business mission is concentrated outside of the IT organization and generally includes such core functions as building products, selling products, and getting paid for those sales. Therefore, strategic thinking for management must include an analysis of the impact major decisions will have outside of the IT organization. Only with a value or benefit methodology will IT move from being considered an overhead element that should be minimized, to being an integral contributor to the top line, the revenue line, of the balance sheet.

Determining this potential benefit is often simply a matter of asking the proper questions during the evaluation and planning stage and quantifying the resulting answers based upon current metrics and business plans. The 20 customer-focused questions discussed here will assist an organization in considering the revenue impact of major decisions and allow it to move to a more strategic place in the organization.

Catalyst

Many large companies have asked how we can evaluate the benefits of technology decisions to the organization.

Alternative View

Unfortunately, managing an IT organization is often closer to trying to tame a herd of wild beasts. Thinking strategically is a luxury that most IT managers simply do not have the time to perform. IT is most often considered a support organization, focused on maintaining the computing infrastructure whose priorities are set by the other business divisions of the company.

Discussion

Unfortunately, many IT organizations are mired down in the day-to-day management of the computing infrastructure of an organization, with little concern for the impact its decisions can have on the core business functions of the company. This leads to the basic feeling that IT is a component of the organization's overhead and, as such, should be minimized. Such an attitude manifests itself in the pressure for IT management to "make do with less" in both budget and personnel.

Moving an IT organization away from a cost-based decision making methodology to a value-based one can mean a dramatic shift in thinking. However, it has the potential to elevate IT to a key strategic role in the organization, where it can directly affect both the revenue and income lines on the balance sheet.

Developing an outward focus requires the evaluation of the effects of activities or missed opportunities on the departments outside of IT. A useful process for moving IT decisions from a tactical analysis, based upon cost, to a strategic one, based upon value, the answering of key customer-focused questions to quantify the potential benefits and risks involved with each major decision.

Business Perspective

- ◊ What are the company's key business goals and what is IT's current role in meeting them?
- ◊ What benchmarks and quantification measurements do we have to evaluate the effectiveness of our current systems and processes? Establishing benchmark levels--in terms the cost of the sales process per customer obtained, or the cost of entering and filling an order is key to being able to measure the effectiveness of the new system later on.
- ◊ What financial measurements in terms of benefits to the organization, as opposed to cost savings, will be used to measure the effectiveness of this project?

Short Term Value

- ◊ What are the key short-term goals, from a revenue perspective, for this system? Most new applications are developed to meet a business need. Quantifying the potential benefit of the system (vs. maintaining the status quo) should occur early in the evaluation process.
- ◊ How will this decision enable others in the organization to better perform their core business functions and what is the level of improvement expected?
- ◊ How many new customers will be required to pay for this system, and how will this system contribute to their acquisition?

Long-Term Value

- ◊ How will this system leverage existing legacy systems and allow the information contained in them to be used to identify new customer opportunities? For example, building and maintaining a customer history can help identify segments of the customer base that should be targeted for additional products or services.
- ◊ What new revenue opportunities are opened up through reuse of the core functionality of this system?
- ◊ To what degree can we improve employee productivity within the various business functions based upon information made available by the new system?
- ◊ What long-term effect will this business decision have on our ability to compete in the marketplace? If the key needs of the customer change 3-5 years from now, will this system be a competitive advantage or disadvantage? By how much?

Flexibility

- ◊ What changes in our infrastructure will be required to support the planned project? Many organizations consider the IT organization to be the keeper of the information "plumbing." As such, management usually regards infrastructures as cost-based decisions. Improvements to the corporate infrastructure, when made in reaction to ongoing problems, do fall into this category. On the other hand, improvements that can be quantified on the basis of enabling additional revenue opportunities are strategic.
- ◊ To what degree will the implementation of this system increase or decrease the flexibility of our infrastructure? Will we be able to take advantage of new technology opportunities when they are identified?
- ◊ Are the funds being used to pay for this system incremental to the planned budget, or will the decision to implement this system limit our ability to meet other business needs? For example, an organization that diverts all system development resources to Year 2000 conversion will be at a significant disadvantage to a competitor who realized that this is a one-time expense and budgets for it incrementally.

Risk

◊ What is the risk that this system will never be deployed? Many large-scale projects are either significantly delayed, or fall victim to changing priorities. Based upon historical information within your organization and others, what is the chance that this system will be delayed to the point that it becomes ineffective?

◊ What are the risks that my chosen vendor will fail to deliver that which I need to make this project work? What impact would this failure have on revenue projections?

◊ What is the potential for delay in integrating this system with another key component? Multi-vendor projects always entail a higher level of risk.

◊ What is the risk if the target users for this application will fail to use it? For example, sales force automation projects require behavior changes on the part of a large percentage of the affected sales force. If only a few use the system, the processes that rely upon the input of data into the system are rendered ineffective.

◊ What is the risk of inactivity in terms of missed revenue opportunities?

Time

◊ What is the expected life of this system? A system that will have a long-term effect on the organization will cause a greater swing in the potential economic value, either up or down, than one being developed to meet a single, short-term need.

◊ What are the key time windows for this application and what effects would a change in the current schedule have on the planned revenue benefits?

Discussion of Alternative View

Today's IT organization is usually focused on reactive decision-making. This is not necessarily bad. Organizations, such as sales and marketing, are chartered to focus on the customer and the sales process. IT should concentrate on supporting these groups based upon the priorities that they set.

Notes

Are You Thinking Strategically? IT decisions that reduce cost have their benefit within the IT organization and are generally tactical in nature; those that add value produce benefits outside of IT.

Federal Express-A Case Study

While a complete Total Economic Impact (TEI) analysis of a Year 2000 project is beyond the scope of this position paper, the example of Federal Express is illustrative of the need to use strategic decisions to increase flexibility.

It has been reported that Federal Express has allocated $500 million to complete a Year 2000 conversion program for all of its systems. While this sum is significant in itself, what is most relevant is the fact that these funds were allocated incrementally to the operational IT budget. As such, it is clearly a strategic move for the company. Simply speaking, on January 1, 2000, what will Federal Express' position be in relation to competitors who were forced to postpone their other IT projects for lack of funds due to their own Year 2000 needs? Federal Express will certainly be in a position of strength in this marketplace.

Additionally, as a complement to its own internal projects, Federal Express has organized a program to assist its customers in their Year 2000 programs to ensure that they will be capable of taking orders and shipping product, hopefully by Federal Express, after January 1, 2000.

With this long-term focus on the potential revenue available after the Year 2000 crisis has passed, Federal Express is maximizing its flexibility and increasing the strategic impact of its Year 2000 project.

Recommendations and Findings

Most IT organizations still make decisions based only on the effect they will have within the IT organization. Such decisions are usually cost-based.

Value-based decisions require analysis of the decision's effects outside of the IT organization. Value-based decisions require an analysis of the decision from the point of view of the customer, not the IT organization.

The strategic impact of an IT decision is an important measure that takes into account the revenue ramifications of the planned application or architecture to the organization.

With an analysis of the strategic implications of a decision, IT can move from being considered part of the organization's technological overhead to playing a key role in the growth of the business.

Recommendations:

All members of the IT organization should be able to clearly elucidate the company's key business goals and IT's role in helping the company to attain them. If this is not the case, time should be allocated for their review.

Likewise, all key members of the IT organization should be familiar with the business' key customers, including what they have purchased, what they are using it for, and why they chose your organization as their supplier. Periodic visits with these customers should be part of the responsibilities of all key members of the IT organization.

The IT organization should analyze all major business decisions based on the value provided in terms of potential revenue gains, not on cost.

The IT organization should use the 20 key questions provided here to build a framework for evaluating and comparing potential system, architecture, and application decisions. Only with such a framework can IT measure the future implications of the decision.