

CIO Leadership Case:
Harry Fox Agency:
Linking IT Investments to Business
Value

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FOUNDING PARTNER



Linking IT Investments to Business Value

In a rapidly shifting business environment, the IT group at the Harry Fox Agency (HFA) was confronted with the challenge of aligning with this music rights licensing organization's strategic direction. To address this, the CIO instituted a disciplined project portfolio approach driven by metrics that linked the business heads into the IT planning process. In a market with declining revenues, this has allowed HFA to make the appropriate investment to capture new sources of revenue and stay ahead of the curve.

In early 2007, after wrapping up a multi-year technology transformation, the IT group at HFA had to re-focus its efforts on new projects, balance competing priorities from different business heads and strive to align its work with the company's four or five areas of strategic focus. Senior Vice President and CIO Lou Trebino saw the opportunity to align IT's effort and investment decisions with the strategic planning of the business. The team recognized that in order for HFA to differentiate itself in a highly competitive and dynamic marketplace, it required continuous technology-driven business innovation. Lou quickly initiated a strategy that required IT to integrate with the business units, enabling a more directed approach to innovation and new opportunities for revenue.

CONFRONTING MARKET CHALLENGES

HFA issues licenses and collects and distributes royalties on compositions controlled by its over 37,000 affiliated music publishing clients. In business since 1927, the company represents over 2.3 million songs for reproduction and distribution in the U.S. market, including uses on CDs, digital downloads, ringtones, lyrics and tablature.

Like the industry it serves, HFA had to adapt quickly to the sudden decline in sales of CDs and the rapid growth of online music distribution. New digital formats put an increased demand on its licensing services at the same time clients and customers were demanding more services and transparency into their licensing information. From 2001 through 2006, the company had made major investments to bring all of its licensing and catalog management capabilities online. The team now needed to work on a more lean scale, but since it serves the evolving digital marketplace, the pace of the innovation and development cycle could not stop. With fewer resources to dedicate to IT, there was a clear need for the team to partner more closely with the business heads on strategic IT planning and investment moving forward.

Trebino, who had consulted to the company during its transformation and became CIO in early 2007, decided to connect more clearly technology development planning to HFA's strategic direction. By having IT and business leads work together to determine the projects the joint team would take on, and then continue to have them collaborate through the chosen projects' development and implementation, he could instill a business-focused mindset in the IT staff while also integrating IT's services with HFA's core business.

EVOLVING METRICS TO UNDERSTAND TRUE RETURN ON INVESTMENT

Trebino promoted the use of a rolling 18-month IT project plan to organize development work. Regular meetings to review additions and changes to this project portfolio brought together all of the HFA department heads, who were tasked with presenting their case for IT services: to outline the impact of a project on their businesses (such as headcount reduction or cycle time

improvement), to assess the benefits of any given IT initiative for the entire agency as a whole, and to discuss the plans in the context of the opportunity costs of their requests.

This strategy-driven approach required real ROI metrics to objectively measure the benefit of a potential project and create a true impact analysis. The impact analysis must include an examination of the current process steps the new IT investment can eliminate, and what previously manual activities could be automated. The next step is to calculate that investment's impact in terms of either adding or subtracting cost from the baseline of "business as usual". *"This is where aligning with your CFO and his team really pays off. Their skills can help you determine all the factors for a proper ROI decision,"* notes Trebino. *"It also helps diminish a notorious area of conflict for CIOs – you can become a partner to increase the 'P' side of the balance sheet, rather than as a leading contributor to the 'L'."*

Trebino says that the discussions have been eye-opening for his business colleagues, and enriched the perspective on the true business costs of IT investments. *"For example, we spent over a year looking at CRM applications, which we had thought was a no-brainer. Once we went beyond the initial package costs and dug into implementation, license, and ongoing support costs, we realized that the return would not make sense for HFA's business."* The discussions have also helped the team continue to refine the metrics. For example, the "ROI impact" template now includes project indemnity and insurance costs – something that was not always accounted for in the equation, but emerged as an important element to include in understanding the true business impact.

MOVING TO BUSINESS – DRIVEN IT MANAGEMENT

Project metrics are then translated into a framework for action – a four-stage ranking of priorities in terms of their impact on the business. The priority ranking system (which ranges from Critical to Low) is agreed to by all of HFA's managers and allows the IT team to place each request – whether large or small – in the context of importance to the business. This empowers Trebino's staff to better assess and manage requests so they are consistently aligned with the agency's strategic direction. He notes, *"sometimes the key is to know what you can say 'no' to. As a service area, it can be difficult for an IT person to push back – the prioritization makes it easier to have this conversation."* The framework also allows the group to "bundle" its work more effectively so resources are used efficiently.

The key organizational change required to effectively implement the new framework was in building, strengthening, and redefining PMO-related roles. *"The glue that holds this all together is a solid Project Management Office,"* says Trebino. *"We are very disciplined about the use of Demand Management software, tracking all stages of a project and rolling everything up into heat maps and issue registers. It's very easy to evaluate the health of individual projects and the portfolio as a whole."*

In terms of staffing, HFA collapsed the business analysts and the QA resources into Business System Analyst (BSA) roles, and engaged them in a project from requirements development through to systems testing. Within the eight person PMO team, three are PMI certified and two are Certified Business Analysts, so they have the training to support their new functions. Trebino cautions, *"It took some time to solidify this collaborative approach, but with the strong support of our CEO, Gary Churgin, we were able to make the new process stick."*

The whole organization benefits from the clarity of priorities and the focus on strategic goals. To reinforce the framework, Trebino's group reissues the framework criteria to all managers every six months and has managers review everything to see if adjustments need to be made. He says, *"we look at the percentage of projects applicable to a business unit and to a strategic initiative, as well as the percentage of assigned IT resources, and see if things are in balance."*

We check that we are using our resources appropriately given where we want to be as a company.”

BENEFITS TO THE IT GROUP

The new approach has generated several unexpected benefits. The IT employees have been reenergized because they now see a broader purpose for their contributions within the agency. *“Coming off of a major technology transformation, I was very concerned that we were losing some of the energy that made that effort so successful,”* says Trebino. *“This approach has refocused and revitalized my team.”* The increased view into the value and role of IT in driving the business has also helped to preserve the IT budget, because of the benefits to the company’s bottom line. The business leaders support the continued investment because they see new value in IT’s contributions.

NIMBLE RESPONSE TO CHANGE

Trebino’s strategic IT focus was put to the test last fall, when a new government ruling was issued regarding the rates and terms included in HFA’s licenses. This required the company to modify all of its key systems for a new, complex rate structure as well as new license formats. Without adding more resources, HFA was able to be nimble and quickly modify its plans for the next few months, with a few clear ongoing priorities maintained while shifting the focus to developing these critical changes. On March 1, 2009, when the ruling went into effect, HFA was ready to license these additional formats.

LESSONS TO SHARE

Trebino shares several lessons from his experience developing his metrics-based approach to IT value:

- It is critical to have the support from your CEO to promote the organizational changes necessary to move to viewing and managing IT investment through a business value lens.
- To reap the full value of this ROI approach to IT investment and decision making, begin the analytics much earlier the process of determining priorities – this is what drives the prioritization process.
- Set and communicate the “terms of engagement” for the business units – and stick to them – to increase buy-in across the company and improve the transparency of the process.
- Training and communication about the processes, approach and methods to defining the business value of IT and using it to make decisions is vital to support the change required in the organization.

NEXT STEPS FOR OPPORTUNITY

Trebino and his team are now an integral part of HFA’s ongoing business proposition. *“As we look ahead to see how HFA can offer new or enhanced services to the marketplace, the flexibility and competency of the IT department is part of the sales pitch,”* reports Trebino. *“We’re no longer a backoffice function but a key part of the business proposition – a great place to be for a CIO.”*

Lou Trebino's advice for CIOs who want to use metrics to link IT with business decisions:

1. Team up with the CFO – Get the help of the CFO's team to validate the metrics and make sure they cast a net that is wide enough to be effective for what you are trying to measure.
2. Don't forget the intangible costs – Be sure to identify all intangible costs – for example, IT infrastructure costs and additional licensing costs if you have to add users – and then use a checklist to make sure those costs are captured every time.
3. Always consider the opportunity costs – Taking on one project is always going to prevent you from doing something else.
4. Continually communicate with the executive team – To ensure ongoing buy-in, it's crucial to keep the topic of metrics on management's agenda.