Apply Technology Business Management To Shift From Tech Cost To A Tech Value Conversation

Continuous Improvement: I&O Transformation Playbook

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WHY READ THIS BRIEF

Your firm’s customers, channels, and competitors are digital — which means that your company must use technology to differentiate. That requires infrastructure and operations (I&O) leaders to shift the conversation from costs and “feeds and speeds” to how the technology will enable the innovations the firm will use to win, serve, and retain their customers. To enable a transformation journey around the optimization of “running the business” with technology and “changing the business” with technology means that I&O teams and professionals must adopt their own technology business management strategy to provide the information needed to make the right decisions about the provisioning and use of technology, people, and processes around both the IT and business technology (BT) agenda. To start, I&O teams must provide transparency into the technology resources and linkage to the business processes supported. This application and adoption of transparency to run and change the value of technology for the business is called technology business management (TBM) and its impact and steps are described within this report.

I&O TRANSFORMATION VARIES ALONG TWO DIMENSIONS

The age of the customer is in full bloom. Business leaders and strategists are designing strategies focusing on customer engagements that must be supported by investments into business technologies to win, serve, and retain customers. But much of BT depends on and must be supported by efforts around sustaining ongoing business operations and excelling IT — the technologies, systems, and processes to support and transform an organization’s internal operations. The challenge is finding the balance to excel at IT while accelerating BT. To understand the alignment of spending with the priorities of business leaders and strategies, we quickly find that there is a problem. For instance, the leading technology initiative according to Forrester’s data is “improving the use of data and analytics to improve business decision and outcomes,” with 54% of respondents stating it as a high or critical priority. At the same time, we also see an IT-related initiative is the second highest priority at 48%: “upgrading or replacing legacy systems.” For I&O leaders who are responsible for making decisions for the IT and BT agenda, it is critical that they are able to communicate the value of technology while managing a transformation. The transformation is the shift in focus from “the cost of technology” to “the value management of technology.” Tech leadership capabilities must focus on both end customer-facing and operational needs and on both internal and external customers as they help to operate and transform the business. To understand the investment and value of technology then requires the managing and analyzing of the financials of technology. I&O leaders have to understand both:
Costs associated with running the business. Business services enabling customer engagements are supported by effective operations and technologies used. For example, the pharmaceutical company Mylan looked at what it costs to run the business and shifted its technology spend to provide better value and align with the business goals. Once its IT department took the time to realize its growth goals, it doubled its manufacturing capacity and product portfolio. It adopted a cloud-first technology strategy to speed time-to-value and business flexibility. Its first implementation was transferring 20,000 people from a legacy to a cloud-based collaboration platform in under three months.

Value of technology enabling and managing business services. The investment in BT specifically targets technology supporting the business services that focus on the company’s customers. For DirectTV, innovations have become its strategy to stay competitive. The technology management team was a critical partner in enabling DirectTV’s digital innovation. By understanding the value of technology to enable digital innovation in products and services, it achieved significant gains in customer experience.

To support I&O transformations and investment discussions around technologies to run, enable, and manage business services, Forrester is using the term technology business management. The definition of TBM is:

Technology business management is the adoption of tools and processes to shift the management of technology costs to technology value, enabling and supporting the acceleration of the business technology agenda.

Technology Business Management Is Ripe For Adoption

As part of every transformation, there must be the management of the performance, impact, and outcomes — or essentially the overall business value. Describing the value of technology has always been difficult. Dr. George Westerman uses the example of the exercise machine to describe this issue in his book. The exercise machine has value as it promotes health and other benefits. But if measured in how traditional IT organizations measure their own performance, it would be measured in the number of hours used. This measures the use of the machine but not the value for the person using the machine. In a transformation journey, I&O professionals must focus on the real source of value which are the outcome, health, agility, and delivery aspects of the people, processes, and technologies for both the IT and BT topics.

Why now? There are four key reasons why some companies are looking toward a better understanding of the value of their technology and with it manage their I&O transformations:

- The birthing of the continuous business service. Business service management (BSM) was an attempt to organize business services with supporting systems and processes and manage them
while understanding the business importance of these services. Unfortunately, this failed by 2007 when most technology management teams — particularly I&O — were unable to either make the connection between business services and the technologies supporting them or did not see this as their priority. In the age of the customer this is changing, as customer needs require the bundling of business capabilities across a variety of operational complexities in order to match the outcome to the customer journey.

- **IT process maturity.** The phenomenal growth of the IT Infrastructure Library (ITIL) as the de facto standard for service design, delivery, and service support processes has raised the bar for I&O organizations’ process maturity considerably. Most I&O teams today can be considered to be in the stable stage, rather than the chaotic stage of a few years ago. ITIL however is very procedural and bureaucratic and won’t be a sustainable best practice model, which necessitates enabling modern application development and modern service operation, and therefore needs to be reinvented or updated.

- **Data availability.** No good cost accounting can come from bad data — it’s as simple as that. Technology advances in discovery technologies have enabled companies to gain very high levels of data accuracy in recent years. And, more and more companies are using time sheets to report time spent on service delivery, incidents, and projects. Keep in mind that personnel costs are already the largest and ever-increasing IT budget items.

- **Tool automation.** Managing technology value management spans the functionalities of cost transparency, planning, cost modeling, and benchmarking. Technology management organizations are realizing that there are automation solutions that can be used to implement TBM. Vendors such as Apptio, VMware, and Upland Software are approaching this topic from different angles with different solutions focusing on one or many of the data collection, modeling, and decision support topics in enabling the process of continual measurement and improvement.

**The Four Steps Of Technology Business Management**

BT spending is growing more than twice as rapidly as IT spending as CIOs focus more money on technologies that help win, serve, and retain customers. By 2017, BT will represent 31% of the US tech spend and will continue to outpace IT spending growth. Technology business management is a way to understand the investments consumed by IT and BT relative to other functions in the business.

1. **Set up a foundation for understanding costs.** The first step in a TBM journey is the understanding of the cost model. A cost model is comprised of both capital expenditures and operational expenditures. Cost models can be very complex and since decisions are about the characteristics of the costs model, you must consider which cost types are direct versus indirect and which are capital versus operational.
Challenges associated with establishing a cost model: In many I&O organizations, spending data is not readily available. Start somewhere and capture the existing details, as this is an essential first step to create a foundation of understanding the costs associated with technology and associated costs — regardless of whether it’s IT or BT technology.

2. Establish your service architecture and link spending to it. During I&O transformations, all eyes should be on IT and BT investments. Both IT and BT transformation initiatives consume significant resources. How does your business group know that it is getting value from your transformation initiatives? This second step is to establish a service architecture that can be used to track technical service costs and business service costs. Business service costs can be established by means of apportioning. For example, a business service of “email service” can be entirely apportioned to the server management service which is the technical service component. The technical service of “server management” can be populated by leveraging data from the cost model of “hardware management” and “facility service cost” from your cost model established in step 1. Your service architecture should be designed at such a level that every cost has a service to which it can be directly assigned. Both business and IT services can then be presented.

Challenges associated with service architecture: The actual challenge is not the service architecture but rather the activity of service mapping to get to the service architecture. A typical service architecture is comprised of the IT, application, information, and business services. This requires the participation of multiple people from multiple organizations to assemble such a holistic picture and define the service taxonomies. The best approach is to start with one service topic area — e.g., to establish your IT services, tap into the service management team to provide the IT service taxonomy. Once you have all four, you can bring them together into an end-to-end service architecture. The final picture should be a close link to your enterprise architecture.

3. Determine business value of technology associated with continuous business services.
Once the service architecture and associated costs are known, the next step is to connect these existing technologies, systems, and process captured in the service architecture to the continuous business services that are delivering outcomes to customers. The assumption is that these continuous business services are key priorities for the business and need technology innovation and investments. Mapping the investments and costs associated with enabling technology components will show the value of these previously invisible technologies to the business. Assure that the investment conversation also covers options for dealing with costs, risks, and constraints in order to support future strategies.

Challenges associated with continuous business services: The challenges are more organizational than anything else. If you have business relationship managers who understand, have mapped, and are connected to the business teams in charge of these business services, then
this will be an easy step. If not, you must expose this lack of connection to your management and initiate a continuous business service mapping journey. This might be easier done first as a proof of concept with one particular business service. Leverage and work with folks who understand the customer journey and map a particular customer journey to your service architectures. For example, the ordering of a product from a retailer’s catalog, kiosk, or point-of-sales system is connected to systems that determine pricing, shipping, and availability of products. This connection is critical to guarantee the outcome of a successful ordering of products.

4. **Leverage the transparency to facilitate and change conversations with the business.**
   Understanding the cost to provision and the value created by a particular business service consequently allows you to take the final step of value analysis in relation to quality and utilization. You must balance the cost associated with excelling at operations with the value of adding flexibility and agility to accelerate BT. Tradeoffs and dependencies can be discussed with facts and details. Additionally, the conversation shifts from an emotional discussion to a fact-based one.

**Challenges around the conversation change:** The challenges of defining technology investments that are associated with running the business and changing the business must be understood relative to the impact of technology. Technology alone does not create value. However, having the transparency into spending and benefits allows a conversation between technologists, business, and financial teams on investment decisions to continually improve the prioritization of future resource commitments around both IT and BT.

**Why Is TBM Crucial And What Is Its Impact?**

The focus on business technology is one area of understanding technology value, but at the same time the other classic “information technology” (IT) that supports more efficient operations is important as well. The acceleration of business technology spending, while simultaneously optimizing existing IT systems, is critical for success in the digital business. The adoption of TBM has the following impacts:

- **Overcome mutual mistrust and aim for partnership.** I&O organizations and other technology management organizations today don’t necessarily see eye to eye. When talking to clients, we hear statements where business consumers accuse service delivery teams that their “bill of IT is too high” and that they “are not getting what they paid for.” I&O workforce enablement teams are seeing service requests and change requests being submitted with high priorities without the business consumers being aware of other priorities and the potential cost associated with their desired changes. These and many other examples have led to a mutual mistrust. I&O must overcome this mutual mistrust by providing transparency of its transformation activities. The ultimate goal must be to better partner with the business consumers and executives.
■ **Understanding and communicating budget issues.** The ability to understand costs with the capability to drill down into the details allows for business-centered conversations with budget owners and technology consumers. Details on current spend around cost pools, IT towers, and subtowers can be examined for accuracy and categories of spend.

■ **Highlight the state and age of technology.** As I&O transformations are undertaken to respond to firms’ business realities and the technologies associated with both IT and BT, it is important to understand the state and age of technology around both agendas. The best way to understand this is by looking at technology’s impact on your organization’s “users” — internal employees, customers, external partners, and digital proxies. Investments must be made to link technology management to business growth with respect to a) improving the customer experience and b) supporting the value chain of customer experience.

■ **Joint decision-making on sustainable investments.** A greater portion of technology spending is happening outside of traditional tech management organizations. Digital initiatives are being driven from your marketing department, in HR, in logistics, and in sales. The business units are acting as technology startups. This shift in demand and control will potentially decentralize the spending of technology and cause a variety of challenges. One challenge is the lack of governance to avoid over-proliferation of services and consequently the potential loss in the opportunity to save money or reach better prices through negotiations with vendors.

■ **Shift I&O into the role of a service broker.** Understanding the technology investments and impact of the technology on business results allows for decisions that lower operational costs while enabling increasing revenue. The business model for technology is changing from technology management as an integrator to technology management as a service broker. As I&O organizations understand the infrastructure towers, it provides visibility into the resources required to provision infrastructure. The costs of building applications, running them, and making them available for the business are allowing a shift to a comparison model and determining prioritizations of rationalizations and improvements. As I&O organizations are adopting TBM, they are able to shift from formerly being a rigid, high maintenance, less efficient, and less controlled technology management organization to an efficient, elastic, and lower maintenance service focused organization — effectively functioning as a service broker.

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**RECOMMENDATIONS**

**TBM SHIFTS FOCUS FROM TECH COST TO VALUE FOR CONTINUOUS IMPROVEMENT**

The need for continuous improvement lies in the need for changes to the conversation surrounding the cost of the technology and the value of technology in enabling the business and its outcomes. During a transformation, nothing stays still. To test your ability to continuously improve, you
must measure your I&O transformation. Technology business management is one aspect of the I&O transformation that allows you to optimize and balance technology spend against the value of technology investments, linking both to business goals. Before you get started, there are three key issues to address:

1. **Form a powerful liaison with leaders to drive change.** John Kotter, a professor at Harvard Business School and world-renowned change expert, mentions powerful coalitions as one of the eight principles of change management. Introducing financial transparency with TBM is a change to how technology organizations and business teams are working together. Such an endeavor takes strong leadership and visible support from key people within your organization. Getting your CIO to support you in this is critical. To lead change, you need to bring together a coalition, or team, of influential people whose power comes from a variety of sources, including job title, status, expertise, and political importance. During a financial crisis, American Title’s CEO looked to the company’s CIO to more effectively deploy capital. The CIO initiated a transformation of IT using two key rationalization initiatives: consolidating 35 data centers into two plus cutting legacy apps in half, all guided using technology business management.11

2. **Develop a team that owns the TBM function.** Establishing a team that has the responsibility to collaborate, coordinate, and manage all continuous improvement efforts leveraging TBM is critical for its success. This team is best homed in the CIO organization with ties into finance, I&O operations, and other constituencies within the technology management organization.

3. **Don’t wait until you have the perfect data.** Financial data tied to technology investments made so far, operational details, and service design and delivery details are scattered across many sources and systems. If you wait until this data is perfect, you will never start your journey. Use transparency to highlight your data issues and fix them or work with the responsible budget owner or data owner to fix them.

**SUPPLEMENTAL MATERIAL**

Companies Interviewed For This Brief

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ENDNOTES


4 For more information on how your IT organization can conquer business service management, see the February 6, 2007, “Business Service Management: Early Birds Are Catching The Worm, But IT Still Doesn’t Get It” report.

5 For a better understanding of the current service management landscape, see the March 17, 2014, “The State And Direction Of Service Management: Progression, Deceleration, Or Stagnation?” report.

6 Forrester defines a continuous business service as a discrete business service that is managed to continuously provide a specific outcome and that can be composed into customer-journey-moment solutions by the specialists skilled in channel technologies like mobile, Web, and call center. For more information about how to win, serve, and retain digitally empowered customers, see the August 7, 2014, “Bridge Complex Customer Journeys With Continuous Business Services” report.

7 To learn more about Forrester’s findings for its itSMF survey in 2013, see the March 17, 2014, “The State And Direction Of Service Management: Progression, Deceleration, Or Stagnation?” report.

8 For more information about how your digital business can best deliver its business services in a way that wins, serves, and retains customers, see the September 24, 2014, “Transform Tech Operations To Better Serve Customers” report.

9 For a better understanding of how business technology will help firms differentiate themselves using their BT agenda, see the October 14, 2014, “Sizing The US CIO’s Business Technology Agenda” report.

10 Forty-five percent of business and technology decision-makers say their department’s spend on technology has increased over the past 12 months and 59% say it will increase over the next 12 months. Of those who have increased or will increase spending, 46% indicated that their department was spending more of its own money on technology because the rising expectations of customers requires the business to push IT to keep technology current. Source: Forrester’s Business Technographics® Global Priorities And Journey Survey 2014.

11 When Gilmore took over the helm at First American, the company was reeling from the recession, over-complicated, and lacked a clear vision. Employees lacked accountability. Gilmore knew that he had two years — three, max — to turn things around. Part of his mandate: cut 25% of costs, shut down half of the branch network, rationalize operations and bring clarity to the organization. Gilmore needed a strategic thinker to partner with — someone who was committed, a leader, and effective. He turned to Godec, his CIO, who in turn looked to something he’d heard about from Microsoft to help manage the transition: TBM. Utilizing TBM methodologies and tools, Godec began the process of rationalization. He quickly