

INVESTOR'S BUSINESS DAILY

Wednesday, August 21, 2002

Internet & Technology

Firms Wringing Value From IT Units

Pressure To Show ROI

.....
Consultants say tech departments can help other units save money
.....

BY J. BONASIA

INVESTOR'S BUSINESS DAILY

More and more experts say it's high time for IT to toe the bottom line.

For years, information technology teams have maintained computer systems on behalf of their firms' other business units. IT units have generally been viewed as cost centers, since they don't directly contribute value to a firm's bottom line.

But in the current spending downturn, more firms are viewing IT divisions as partners that can help other business units save money.

Half of all IT managers recently surveyed by Information Week's Optimize magazine say pressure has grown in the past year for them to show a return on tech investments.

"The trick to IT being more effective is treating it as if it's a separate business," said Ed Pillard of PricewaterhouseCoopers Consulting. "Do away with internal allocations and actually render bills as a real business. This makes the business manager look at that cost and focus more on the value of that spending."

The new approach contends that IT managers should regard other business units as customers.

Pillard says these "clients" from operations, human resources and sales and marketing should be billed on the basis of their IT resource use, rather than staff size or floor space.

In this way, IT units can play a strategic role in cutting costs from other departments.

Some firms, including Apogee Networks Inc. of Bloomfield, N.J., and ADC Telecommunications of Eden Prairie, Minn., make software that bills corporate users within business divisions for their fair share of network bandwidth and storage. Yet Pillard says most firms still allot IT costs in the old ways.

"Allocations still based on headcount or floor space send a message to the leaders of business units that they have little control over the IT spending, so they're not motivated to focus on that," he said.

Starbucks Coffee Co. has aligned its IT division more closely with its stores and other business units over the past two years, says Karen Metro, Starbucks vice president of North American business systems.

All Starbucks business units and stores are responsible for setting their own IT budgets, says Metro. And IT staffers report directly to the business units they serve, not a central IT department.

Regular meetings of Starbucks unit heads, IT managers and the chief financial officer help the company prioritize its IT costs.

When possible, the IT team should serve as a kind of partner for other business units, says Sid Finehirsh, president of CMX Group Inc., a New York-based consulting firm. He says the IT

department can help other units use technology to gain a competitive advantage.

"IT as a partner becomes interested in the profit of its business partners," Finehirsh said. "This changes the concept of IT itself."

On the other hand, Pillard of PwC Consulting says, chief information officers should know when to swallow their pride and hire third-party outsourcers to run certain projects.

"There's nothing that says the CIO has to own and operate all the technology, equipment and people that provide services to his clients, the business units," he said.

IT teams should at least be able to equal outside vendors in terms of cost, timing and quality of work, says Pillard.

When that's not possible, projects should be outsourced.

"If the CIO feels like he controls the IT franchise and he's not threatened by outsiders and can rest on his laurels, that's when somebody should get nervous," Pillard said.

Last year, Starbucks hired an outside vendor, ValueLink, a First Data Corp. unit, to launch its Starbucks Card program. First Data is an electronic payment service specialist.

Customers buy the cards in dollar amounts to be redeemed like cash at the checkout line.

ValueLink processes the transactions and manages an offsite database for the system.

Metro says the program already is "a big loyalty winner." Starbucks redeemed 11 million cards worth \$41 million in the recent second quarter. Metro admits Starbucks lacked the know-

how to create such a complex customer service on its own.

"We constantly evaluate how we can bring down the costs of running systems," she said. "We'll bring in consulting experts to run initiatives. Or we'll go to outsourcing when needed."

Outsourced IT services make sense for smaller firms with limited budgets. Bay State Bancorp Inc. is a bank with \$530 million in assets and six branches around greater Boston. It invests in Connecticut Online Computer Center, a cooperative IT data center shared by more than 100 small financial institutions in New England and New York.

Denise Renaghan, president of Bay State Bancorp, says the mutual computer center allows little banks to create IT efficiencies and achieve greater economies of scale.

"This means we don't have to make such a large investment in equipment, software and human resources," she said. "One small bank can't shoulder all that and be profitable."

Bay State Bancorp maintains an internal IT unit that services its computer networks and hardware. Renaghan says the bank named a business manager to lead its IT department. That way, it can keep technology projects aligned with broader business strategies.

Too often, Renaghan says, IT managers get swept up by cool new technologies and lose sight of the larger organization's goals.

"It's important to have good communications so that IT understands the strategic plan of the institution," she said. "That way, resources don't go in one direction and the business goes in another."

Investor's Business Daily www.investors.com © Copyright 2002



The CMX Group
65 Broadway, Ste. 1806
New York, NY 10006
212/346-7560
www.cmxgroup.com