

## **Executive Summary**

In October, 2006 112 leaders of US businesses overwhelmingly agreed that Information Technology (IT) is having a profound and pervasive impact on business and that increasingly, the most effective way to channel that impact in a positive, strategic direction is to use outsourcing or “managed services.”

We conducted a survey of 112 executives across the US in companies ranging from small businesses to Fortune listed firms to determine their perspective on IT, its impact and how to manage it effectively.

Our respondents, consisting of CEO’s, CFO’s and COO’s said that IT related cost was no longer a strong indicator of IT performance by a margin of 2:1. Among those rating its impact on competitiveness as more important, it was nearly 5 times more important than IT related costs. Most (69%) said they are satisfied with IT spend growth relative to their business growth, suggesting that efforts to “contain the cost of IT” are now secondary to gaining strategic impact from IT investments.

### **Impact of IT Strategic and Gaining Importance**

Key findings regarding the strategic fit of IT in the business include:

- The impact of technology on business is increasing according to 88% of executives interviewed
- Nearly all CxO’s (C-level executives) report that return on investment (ROI) is part of the IT investment decision making process
- Firms that view IT as contributing in a positive way to their competitive position did not categorically view IT leadership as often contributing to strategic planning or business innovations suggesting a gap between the IT management functions and the firm’s strategy functions
- The perceived qualitative impact of technology on businesses was highly skewed toward positive

Among the 11% of respondents that felt technology negatively impacts their business, three themes emerged; obsolescence, cost, and competitiveness.

- Some firms’ core business models are becoming obsolete, pulling the rug out from under them. For these businesses, like the photographic film industry, changes in information technology are literally eliminating demand for their products or services. They are faced with completely changing their business models and finding it challenging to make the capital investments.
- Other firms, particularly enterprises \$100 million or smaller, are challenged to make investments required to remain competitive. Large enterprise application systems are complex to operate, expensive to implement and often not specific enough to their needs to provide cost advantages. In this segment, economies of scale are enabling large firms to make these investments and spread them across many revenue dollars.
- Still other businesses are between a rock and a hard place. For example, the healthcare industry must provide HIPPA required privacy and security and still work out approaches to share data among providers in order to hold down costs like duplicated procedures etc.



### ... But Challenging to Deliver ...

Respondents embracing technology had a range of expectations:

- "It's going to have a greater impact on the future due to the logistics of running and managing a global company";
- "Internet selling will thrust us into extreme profitability"; or
- "[I] expect it to make us more efficient and competitive and be able to serve the needs of our customers better."

Clearly they believe that IT initiatives are contributing to their organizations' effectiveness. When asked about the effectiveness of their IT initiatives, however, only 8% felt that their initiatives always produced the expected value. A respectable 43% said their IT initiatives delivered most of the time. That left 49% or just about half that felt their results were only sometimes on track with almost 20% of respondents indicating they seldom or never achieved the initial business case.

When asked why, a variety of answers came back. Overburdening of the IT organization was the most often provided answer with about 40% of executives indicating this was their assessment. Another 28% cited either under training or inability to handle diverse demands as key issues. Taken in context, the data suggests that a major challenge for IT organizations is maintaining technically deep talent in the ever changing breadth of skill sets required by the business.

### ... Solution is Managed Services

Almost half of the businesses responding indicated that they are either considering, or are already using external providers to help them achieve the impact that information technology can have on their businesses.

Of those firms that responded that they are currently outsourcing some of their IT capabilities, the following were reported:

- Operations rate about the same in overall satisfaction between those firms that outsource and those that don't. However, executives at companies outsourcing IT operations say they are "very pleased" about twice as often as other respondents.
- Executives at firms that outsource their services are more satisfied with their IT cost increases relative to company growth than are those that run their own IT operations.
- Most firms that outsource are using domestic or on-shore providers rather than off-shore providers.

This is particularly good news for firms negatively impacted by changes in technology. Most of those firms reported challenges related to bearing the cost of IT capital expenditures. Managed services are essentially a way of sharing the cost of applications, critical talent and infrastructure across many firms. The managed services provider takes on the role of demand consolidator or shared service center, enabling firms to pay for only the fraction of the service or asset they consume.

This provides confirmation of what Michael Porter, Harvard Professor and head of the Institute for Strategy and Competitiveness, and others have been predicting, that the question is not so much whether to outsource but what to outsource and when.