

A Guide to IT Portfolio Management and Investment for Business Managers and Executives

"Australia's banks have started overhauling up to \$US8 billion (AUS\$10.4 billion) worth of outdated computer equipment amid warnings from leading executives that the industry is facing a major systems crisis unless it upgrades key software...."

...This comes as major companies in Australia's \$20.8 billion insurance industry work on upgrading dated software systems that underpin key operational functions."

Australian Financial Review 16 August 2005 pp. 29

The challenge for business managers and executives

Making the right investment in IT at the right time to match your business needs is a delicate balance between maximising the return on your investment, and avoiding risk.

On the one hand, you do not want to invest too early with a long payback but on the other hand, delaying investment can sometimes result in increased risk as a result of being forced to undertake large, high risk projects.

Overlaying this tradeoff is the impact of new, emerging technologies which can disrupt the best laid plans.

The key is to make the necessary decisions at the right time. To do this, you need to be able to identify the triggers for making these decisions.

A review of existing solutions

The traditional planning approach used by IT Departments is the IT Strategy and Architecture review. This process interprets the business strategy and plan and develops a plan for IT based on the current IT environment, and emerging trends.

This approach is sometimes complemented by a Portfolio Management process which values IT assets based on age, currency of technology platform, business purpose fit, and operating and maintenance costs. The level of investment in a particular system is gated by forecasted growth or decline in asset value or life cycle stage of the asset.

Both of these processes are important and essential tools for the IT Department. However, they look at IT investment through an IT lens rather than a business lens.

For example

Scenario A: A large financial institution finds itself making a multi-million dollar investment in front-end customer systems on a tight timescale, without a business case, and solely on the premise that it is essential to survival.

The business need had been identified well in advance in the IT Strategic Plan. In addition, it was well understood that the Branch platform was an aging platform in need of replacement.

In spite of this the decision to invest was deferred until there was no choice and any potential competitive advantage has now been lost. Added to this is the risk of implementation under a tight "no choice" timeframe.

Scenario B: A multi-division business accessing IT services on a shared service basis requires each business to develop an IT plan and fund new development from divisional budgets.

The business has a good feel for the level of investment that it can sustain in IT over a period, but does not have a clear idea of where to make the investment or what return they will get on that investment.

The options presented by the IT Department are difficult to reconcile with the business plan in terms of timeframes, cost, and risk. Decisions are postponed.

Scenario C: A major international airline was reported in the Australian Financial Review on 2nd September, 2005 (pp. 70) as

"facing a technology cost crunch as it works to replace ageing software systems....The dilemma has left the airline searching for ways to defray the massive cost...at more than \$100million...the airline had already tried three times in the past decade to build a business case for upgrading the engineering and maintenance software, but was yet to find a viable model. However the airline is fast running out of time to find a solution."

Five steps to create an effective IT investment plan for timely, well informed decisions

Here is a simple five step process for IT investment planning, that Doman Vaughan Consulting has developed for business managers and executives:

- First identify the milestones in the business plan that will trigger demand for new or different IT capability and/or capacity. The IT Strategic Plan and portfolio management process should provide this information. Plot these on a milestone plan.
- Second, obtain from IT an estimate of investment required and time to deliver. Plot the decision points on your milestone plan so as to ensure timely delivery.
- Third, evaluate the risk to the business of deferred investment and highlight the trigger points for low, medium, and high risk on your milestone plan.
- Fourth, adjust the business and IT investment plans, if feasible, to spread investment, obtain progressive returns, or mitigate potential risk.

- Fifth at each decision point, reforecast the plan based on the decision taken.

Summary

"Fortunately, the key issues in IT aren't technical, but managerial. Making good IT decisions is something that all executives can do, provided they use a sound evaluation methodology and take the trouble to develop their business and IT judgement."

*The McKinsey Quarterly 1998
Number 1*

The ability to align IT investment plans with long range business plans is a critical lever for business managers and executives to avoid large, costly, and high risk IT investments and/or introducing significant operational risk into their business. This responsibility cannot be delegated to the IT Department.

This article outlines a five step process to investment planning which enables the business to apply a business lens to IT and to make well informed and timely decisions.

For further information on the ideas outlined in this article please contact us for an obligation free discussion.

Introduction to the next article in our series – IT Sourcing: Matching Supply and Demand

Another key lever for business today in ensuring that their IT capability supports business priorities at any point in time is

the flexibility in sourcing or purchasing to ensure that supply and demand are matched.

The basis on which business inputs, such as transaction processing, are purchased (e.g. fixed vs variable) is key to managing cost. Outsourcing in particular has moved into a new phase. Companies have already learned valuable lessons in how to manage service providers. They must now focus on taking advantage of new solutions such as on-demand services, which can radically alter the risk sharing equation and cost.

About Doman Vaughan Consulting

Donna Vaughan, an experienced management consultant, and Desne Doman, an experienced senior manager in IT, have formed a specialist management consultancy focusing on:

- Breakthrough business and operating model design - to aid you in responding to disruptive industry changes, transforming your costs, or exceeding your customer's expectations.
- Rapid program set up and launch - to assist you in quickly launching a large complex business critical project to minimise risk and at the same time build your own in-house capability.
- IT portfolio investment and sourcing strategy – to help the business plan ahead for critical IT investments to ensure your business plans and strategy will be supported by the technology.