Running Your IT Department Like a Consulting Practice

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Software for Managing the Business of IT Service Delivery

Abstract

Information Technology is reshaping the face of business by enabling new ways of interacting with customers. Now, more than ever, progressive companies that use technology as their core competitive advantage are rocking entire industries. The changing role of IT in business places new and different demands on corporate IT departments. In turn, IT departments must play a new, front line role and actively participate in delivering on what is strategic to the company. In order to take on this new role,IT departments must begin to operate like consulting practices.

This white paper provides IT decision makers with a framework by which to classify the role IT plays in their company and accompanying strategies that can be implemented in order to facilitate the change required for the new millennium.

Introduction

Recent studies have shown that, during 1999, North American companies will spend over 50% of corporate capital budgets on Information Technology. What is behind this staggering spending? The fact that IT is reshaping entire industries. To survive, companies are either leading or following the IT revolution. Either way, they are spending in enormous proportions in order to keep pace with competition or take leadership roles.

Information Technology Turning Industries Upside-down

Hundred year old business models are being challenged by "IT enabled" models.Examples are numerous, but consider banking, insurance, car sales, even auctioning. The fundamental relationship between the buyer and seller is being forever changed through technology. Not minor changes, but wholesale shifts in core business process and practice. In the case of banking, consumers can secure a mortgage, get a loan, and conduct just about any bank transaction desired over the web. Ask yourself: "Why would you ever want to visit a branch?"

Auctioning – An Industry Rocked

Consider the age-old business of auctioning. One of the most recognized auction houses in the world is Sotheby's. This British public company opened its doors 255 years ago and specializes in the auction of art and antiques. Its current annual revenue is about $350 million and has a market capitalization of $1.2 Billion. This means that the market values Sotheby's at a respectable 3.4 times their revenue. Over the last 2-1/2 centuries, Sotheby's has increased its value at $4.7 MM per year.

Enter eBay. eBay is a 3-1/2 year old company that conducts one-to-one auctioning exclusively over the Internet. eBay is publicly traded and generates $52 million a year (last quarter annualized). How does the public market value this company? Its market cap is $9 billion – 173 times their annual revenue.Over the last 3-1/2 years, eBay has increased its value by $2.5 billion per year.

The auctioning industry has been forever changed. eBay didn't look at the auctioning business and try to improve the existing process with technology. They looked at technology and said, "This is how auctioning should be done."

One can assume that eBay brought about a complete re-alignment of Sotheby's position on Information Technology. As of writing this paper, Sotheby's announced on-line auctioning; clearly showing an awakening to a new way of auctioning. As one could imagine,the value placed,and the resulting spending, on IT within the auctioning business has skyrocketed. Sotheby's said that their spending will be approximately $25 million and that level of spending will affect the operating profit.

The auctioning business is a recent example of a wholesale change in an industry brought about by technology.

There are several other well-known examples:

Toy Sales: For many years Toys "R" Us dominated the retail toy business. Toys "R" Us rapidly expanded, opening regional stores focused on providing the largest toy selection of any retailer with spacious stores and plenty of inventory. Along came eToys with no storefront and an 'access anywhere' strategy. Not only is geography irrelevant, but eToys adds value through technology not possible for Toys R Us. They monitor the profiles of the children you buy for and suggest age-appropriate purchases when a birthday rolls around. eToys will shake up the retail toy business.

Book Sales: Barnes & Noble, a very large retail book chain has been woken by Amazon.com. A pure retail storefront operation has been forced to create a significant on-line presence in order to cover its bets.Like eToys,Amazon adds value by interfacing with customers in new and valuable ways through technology.

Business executives have a choice to either look at Information Technology as a way to lead change in their industry, or wait until another organization shifts the playing field and then follow in their path. One can argue the merits of both positions, but either way, the IT Department will be forced to act and operate differently.

IT executives will need to work closely with business leaders in shaping strategies for the future. The IT Department will no longer only perform traditional support, but rather operate as a front-line organization enabling new relationships between company and customer. In order to take on this new and important role, IT departments must begin to operate more like a consulting practice.

Running Your IT Department Like a Consulting Practice

Let's clearly state the one overwhelming reason for considering this shift from support organization to consulting organization. To bring technology to the forefront when devising business strategy and reforming the way your company relates to customers.

The sideline benefit of making this change is becoming the "Yes" department. The IT Department becomes the closest ally of other departments in shaping their efforts to revolutionize the business. Referencing the IT Department as the "No Department" comes from a long history of trying to achieve two conflicting objectives:

- Cost effectiveness & system security
- High user satisfaction

A clear example of where cost and security has, in many cases, taken precedence over user satisfaction, is shown in a quote taken from Hewlett Packard's IS Policy Guide in 1985:

"*Computer systems should be configured in such a way as to reduce the users' capability and access rights as severely as possible.*"

SOURCE:KNOWLEDGE CAPITAL T.A.STEWART 1998

The reasons for reshaping your IT Department to behave like a consulting practice is to provide the organization with a front line, focused unit aimed at increasing customer activity, improving satisfaction and ultimately increasing revenue and profit objectives. The benefits to the IT Department itself are numerous:

- Strategic and value-added work environment: opportunity to radically improve the value of the company, not just by improving operations, but by changing the business process
- Company respect and recognition: other organizational units realize the value of IT and respect the IT Department's critical capabilities
- Improved organizational culture: staff retention is better and IT staff aren't constantly looking for contractor positions.

Making the Change:

IT Consulting firms and IT Departments provide, in many cases, identical capabilities and services. They both manage and execute the core processes in information technology delivery including: Planning,Specifying, Designing, Selecting, Developing, Implementing, Supporting, and Enhancing. So what makes them so different? Simply, the way in which each:

- is paid or manages the IT Budget
- measures performance – Metrics
- manages the process of delivering services – Systems

By changing the way an IT Department handles budget, metrics and systems, a shift can be made from operating as an internal support organization to an externally focused, client facing consulting practice. This shift enables the entire company to better utilize IT and improve the working environment of the department.

The following describes each of these critical areas and associated changes as they relate to running like a consulting practice.

Budget – Who is responsible for the costs? Who Pays? The Customer that's who!

One of the most critical aspects of operating as a consulting practice is treating clients truly as clients. Beginning a relationship or engagement when the consultant already has all the money negates a true customer/consultant relationship. The user community must be in control of, and have responsibility for, Information Technology spending. It should be incumbent on the IT department to perform in such a way that the client will pay them for services.

By putting the budget in the hands of the user community, IT Department budgeting activities change from developing, managing and taking responsibility to consulting with various company units on appropriate spending to achieve their desired objectives. Yes, even the budget necessary for corporate infrastructure should be in the hands of the user community. In order for line-of-business operations to truly understand the impact of IT spending, they must themselves be "on the hook" for it all.

Thus, all IT spending, except the necessities of the IT Department itself, must be under the control and direction of the rest of the company. And although the IT Department might consult with various business units on appropriate spending, they must take their direction throughout the year for that spending. In fact, to keep it pure, business units must ultimately have rights to refuse labor and expense charges if the spending was not approved or the results were not in line with expectations.

Surrendering budget is probably the most difficult step that a CIO and IT staff encounter in becoming a consulting practice. However, without this step, the transition is really not possible. Without having to earn the money, it is a difficult and unnatural act for IT Staff to remember the proper way to conduct themselves in a true client/consultant relationship. Once the IT Department relinquishes control of the budget and accepts this relationship, there are a number of cultural and operational benefits:

1. No to Yes – The department shifts from becoming the "No department" to the "Yes, when can we begin department". The shift is complete when the IT Department is no longer responsible for costs beyond what the users approve.
2. Top staff rise to the occasion – If a user is paying for service, they develop a strong notion of value for money. This introduces new personnel dynamics where certain staff are more often requested by clients. This may be a result of their true consultative nature, good listening skills and abilities to think beyond the traditional IT domain.This type of behavior is both desired and naturally supported when the client pays.
3. Crystal clear satisfaction measures – By giving control of spending to the user community, clear and meaningful user satisfaction metrics emerge. Just as in business, the IT Department can understand client satisfaction by looking at their age of accounts receivable. If the a user group is not paying their bills, (or permitting appropriate cross charges to General ledger accounts),then surprise, they are probably not satisfied.

By relinquishing the burdens of managing the IT Budget, the IT Department is making the most significant and most important step towards operating like a consulting practice.

Metrics –

Over the years, IT departments have developed a myriad of measures. Unfortunately these measures, despite having some intrinsic value such as comparing the relative performance of systems or possibly staff, offer little in measurement of contribution to the business. Some of these include:

Total Cost of Ownership (TCO): A relative newcomer, TCO has been introduced to uncover the traditionally hidden costs associated with information technology. For example, a low TCO means that system A is cheaper to the organization than system B, regardless of the cost of software. TCO was most likely developed by an accountant or CFO who discovered that purchasing and installing a system was possibly the tip of the iceberg of total costs. Unquestionably, this is a valid and useful measure, but by spending time calculating and analyzing TCO, companies take energy away from looking at other more important topics, such as: How can I use technology to service customers better or win more business?

Cost per Mips (Millions of Instructions Per Second): An indication of the cost associated with a particular hardware or software system. The higher the MIPS the more powerful the system. Cost per MIPS is an indicator of what a particular system costs to operate. Fine, but what happens if they are processing the wrong information?

Function Points: A means of measuring effort required for developing software based on a structured complexity gradation. By calculating the function points, IT Departments can assess the productivity of staff as well as the effort required to develop or modify code segments. Again, a metric which doesn't quantify business impact. Who cares how many function points there are in code? A more important metric would be what impact has the code had on the business?

Aside from providing relatively unimportant performance measures, these metrics and others like them have one other significant problem inherent with their use – few people know what they mean. This is demonstrated by a true story told by a consultant of a large management consulting practice. He references an engagement he had with a southern state government. He had told the governor that his state had the highest cost per MIPS in all of the USA. The governor's response:"Is that good or bad?".

Changing the metrics used to gauge and measure performance is the next major transformation required to operate like a consulting practice. Fortunately, the consulting industry provides most of the necessary metrics in easy to understand business terms. These include;

Age of Accounts Receivable: Old bills – the ultimate measure of user satisfaction – means unhappy customers. As described above, users can easily communicate their satisfaction by paying or not paying invoices. Although very simplistic, users have the opportunity to vote quickly and continuously throughout the year.

Resource Utilization: A high utilization means busy staff. Resource utilization indicates the percentage of staff's time that is being spent on "revenue" generating work. Looked upon differently, utilization indicates what percentage of a person's time is being spent on user approved and directed activities.This provides a means to measure the demand on IT staff from the user community.

Billing Ratio: A high billing ratio (hours paid for/hours charged) means the customer isn't disputing any labour and expenses charged on a particular engagement or service. Usually this means users feel they are getting value for services delivered.

Consulting practice metrics focus on customer satisfaction and staff performance. Clearly this differs from TCO, Cost per MIPS etc. A consultative approach requires a focus on customers, not operational efficiency measures. Impact on business becomes more strategic than operational efficiency. In order to measure meaningful things, consider creating a customer management unit, complete with client managers; formalized engagement processes including contracts, change orders and escalation procedures. Develop individual staff utilization targets and reward performance.

Systems – Integrated and Customer Focused

With an outward or customer-focused orientation you must have systems to support this way of operating.Disparate systems of old, such as Budget Management, Project Management, Network Management, Help Desk Management, Software Configuration and Asset Management, while in many cases are necessary, do not support a consultative approach to service delivery. To run as a consulting firm you must equip yourself as such. Consider implementing systems that allow you to run as a business by enabling:

Customer Management: Customer management systems are what some would call sales force automation (SFA). They provide the ability to:

- Manage client relationships
- Track client information such as billing arrangements and service level agreements
- Manage client action items and correspondence
- Forecast future resource demands

Time and Expense Management: In order to run like a business you must charge clients for work performed. In the world of services, this means tracking time and expenses spent on tasks by every staff member. Time and expense tracking systems provide:

- Time entry via electronic timesheets
- Time approval rules
- Expense tracking and approval workflow

Issue and Change Control: Change orders can be the bane of existence for a consulting organization. Left unchecked, they guarantee projects will be over budget. Change and issue tracking systems provide the ability to:

- Track issues raised with workflow to notify project managers
- Track change requests with workflow for approval or rejection from project managers

Resource Planning & Management: Your resources or staff are now your product. Resource management software allows you to:

- Monitor important statistics like utilization
- Search on skill and availability
- Keep track of hiring based on future and current demand

Knowledge Management: Now that your department is operating with efficiency and profitability in mind you should consider organizational learning as an important contributor to success. Knowledge management enables your department to:

- Capture and share what people have learned for future use
- Retain valuable information even with staff turnover
- Ensure successful project methodologies are re-used

Revenue Management (Cross-charging or invoicing): The final stage of the consulting business' operations loop is being paid for services. For some organizations, this means the delivery of an actual paper invoice to the client group. For most,it means an entry to the general ledger as a debit on the account of the client. Invoicing systems provide the ability to:

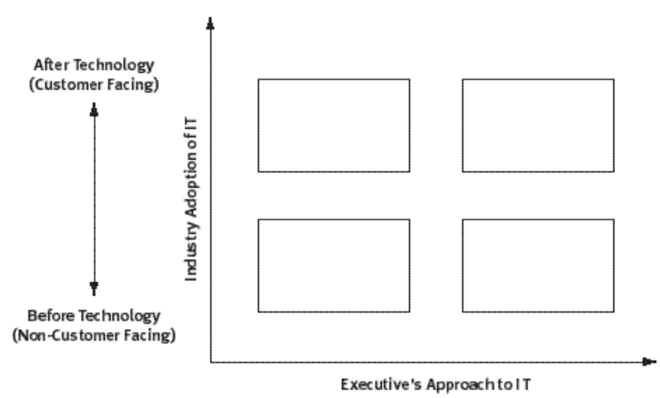
- Bill for time spent and expenses incurred
- Route invoices for modification and approval by project managers
- Integrate with financial systems (general ledger)
- Deliver correct invoices

Assessing your IT Department

Information Technology has, is, or will reshape your industry. Dealing with,and preparing for, these changes requires an assessment of:

- IT adoption within your industry
- Approach to IT within your company

To help with this assessment, we have created a model that places your company into one of four quadrants.This model is shown and described below.



Industry Adoption of Information Technology (Vertical Axis)

With respect to industry and technology, businesses currently exist in one of two Industry-technology states:

Before Technology (3&4): An industry that has not yet truly affected customer relations with technology. This industry might be using IT to improve internal corporate operations or possibly the way in which it interacts with suppliers, but the fundamental relationship between the customer and vendor has not been redesigned.

After Technology (1&2): As soon as one company, (i.e.: eBay, Amazon.com) within an industry changes the fundamental relationship or business process/ model with customers, the entire industry can then be considered, “After Technology”. Thus, Barnes & Noble and Sotheby’s, although doing significant business the traditional way, found themselves in the “after technology”state as soon as Amazon.com and eBay began doing business.

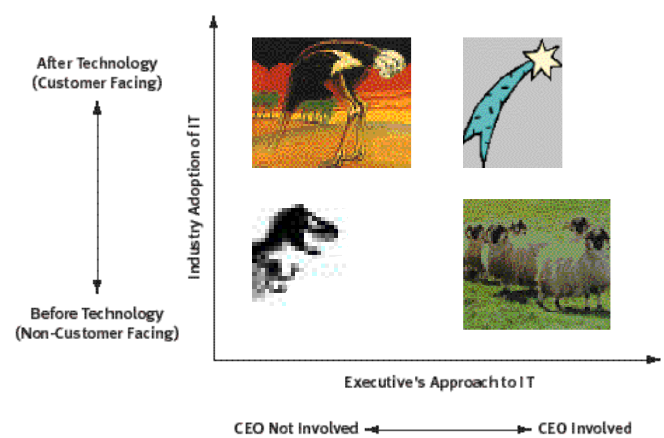
Executive’s Approach to Information Technology (Horizontal Axis)

The importance and role of IT within the company is directly proportional to the time and attention spent on understanding and leveraging IT by executives. There are two categories:

CEO not involved (1&3): A business where the CEO is not actively working with technology experts to seek new ways of doing business. Typically, the CEO focuses on the IT spending and views IT as a cost item. They do not envision ways in which technology can alter their business processes or model.

CEO involved (2&4): A business where the CEO spends significant amounts of time and energy considering how technology can and will affect the business. The CEO actively participates in identifying strategic ways to utilize Information Technology.

Companies and their IT departments belong in one of these four boxes. For purposes of discussion we’ll refer to each of the quadrants as: Dinosaur, Sheep, Ostrich and Shooting Star. The traits of each are described below, and corrective measures to take are outlined in Appendix A.



A Shooting Star

A company that is using Information Technology to substantially change the relationship and the means in which it conducts business with customers is a shooting star. Competitors may or may not be using IT in the same fashion, but the industry has at least one company leading the change. The shooting star's IT Department has full commitment and participation from LOB senior executives lead by the CEO.

- IT Department budgets are the cumulative results of business leaders deciding on the necessary capital that they need to spend on IT to execute their plans.
- CIO reports to the CEO and not the CFO
- The business leaders and executives decide on new systems and consult with the IT Department in making decisions.
- Cost is not the critical factor in IT purchases.

An Ostrich:

Not just any ostrich, but an ostrich with its head in the sand.This quadrant is for companies that are not using IT to change their customer relationships, while one or more of their competitors are. The CEO has passed technology responsibility to a CIO who gives updates to the executive team.

- Annual budgets are established with great pain and effort. The budget goes through several rounds of negotiation and is usually the first target for improving profit margin.
- The appointed CIO reports to the CFO and occasionally sits in on executive meetings.
- The IT Department makes most of the few big decisions that are necessary around technology.
- Standards and TCO are usually important topics of discussion.

A Dinosaur:

Like living in prehistoric times, this quadrant is for companies whose relationships with its customers are not supported or being reshaped directly by technology. They also exist in an industry where their competitors are also not using IT to conduct business differently with customers.The CEO and executive are laggards in adopting IT.

- Annual budgets may or may not be established. Frequently, IT costs are blended into the administration budget. Reducing IT spending is the first target when looking to improve the profit margin.
- Director of IT reports to the CFO.
- The IT Department makes all of the few decisions that are necessary around technology. i.e. email system, hardware, accounting software, etc.

A Sheep:

Where's the rest of the herd going? Okay, I'll go there too. This quadrant is for companies that commit significant capital to Information Technology, but to date have only followed the industry in automation efforts. No company within the industry has reshaped the way they conduct business with customers using technology. When one does, the others are sure to follow. The Executives and CEO are aware and supportive of information technology spending but are not prepared to risk an industry changing strategy.

- Annual budgets are set and each year they usually increase.Gasps are heard around the Board table, but eventually, the budget is approved.
- CIO reports to the CFO but usually included in executive meetings.
- The IT Department makes most of the technology decisions, occasionally including the front line business leaders in the process (software solution to buy, platform,security).

Obviously, looking at the characteristics of the four quadrants, there is one quadrant where, in this day and age, a company should strive to exist. Becoming a shooting star, although not completely within a CIO's control, can be greatly influenced by the way in which the IT department conducts its business. Operating as a support organization, with the inherent conflict of satisfying users while managing the budget, will not enable the shift to become a shooting star. IT departments must take a leadership role in guiding the organization toward technology innovation.This is not to say that the IT department will analyze business trends and make company changing decisions. IT departments must become the consultants that can help business leaders decide what will have the greatest impact on the business and the best way to go about it.

Prescriptions for Success

Changing the role and impact of your IT department can be challenging. It puts pressure on not just process, but people and systems. The following table is a guide to detecting the warning signs associated with IT under-achievement, identifying your greatest challenges, and finding your way to peak performance and industry leadership. When,and only when, you move your IT department from support organization to business enabler will you be reaching your full potential.

Appendix A

Running Your IT Department Like a Business

Quadrant Dinosaur

Telltale Signs

- Budgeting for IT is lumped in with general administration
- Industry conferences rarely include IT vendors or IT tracks
- Excel is the corporate database
- The company website was created within the last year and hasn't been updated since
- Maximizer is the greatest sales tool ever created
- The head of the IT department is a manager and not a CIO or senior exec
- Access to the web is restricted, and the company does not pay for home connectivity

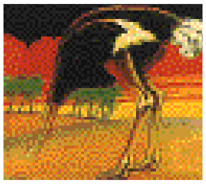
Challenges

- The industry hasn't adopted IT as a critical competitive factor. Getting execs to look at IT as anything but a cost will be difficult
- Change within the IT Department will most likely require a new CIO. However, there's no reason to hire a CIO
- Giving control of the budget to other departments is likely impossible. They don't want the responsibility and the hassle
- Spending company time or money on internal IT systems might prove impossible. Possibly a "cost control" argument can be made
- Reporting to the CFO in a dinosaur organization is possibly the kiss of death. They are traditionally focused on cost control

What to do?

- Assess your organization and the likelihood executives could change the way in which they view Information Technology. Find an executive sponsor (preferably not the CFO) to help champion change
- Speak with the sales and marketing organizations. Find out if anyone else is talking about or showing signs of doing business with customers using IT
- Research similar industries that are using IT to change the way that they do business. Build a case with improved sales and higher stock price examples
- Discuss opportunities for improved customer satisfaction, or increased revenue with the department heads of the front line organizational units
- Build IT strategies and budgets around improving sales and customer satisfaction. Break out plans by department
- Capture costs and metrics around customer centric budgets and plans
- Use simple, business minded metrics for performance. Deliver dates, costs vs.plan
- Remember the Serenity prayer: "God grant me the serenity to accept the things I cannot change, the courage to change the things I can and the wisdom to know the difference" – If necessary, polish your resume

Quadrant Ostrich



Telltale Signs

You have the telltale signs of a Dinosaur with the following additions:

- The company has recently made a press release about how they too will be doing business with customers over the net
- The IT manager (a recent grad from the local college) is being pulled into executive meetings
- The company's auditor has been asked to bring in his consulting team to do an company IT strategy review
- Sales reps are starting to complain that customers are going elsewhere
- The stock price is significantly lower than it should be
- Other companies are recognized as leaders in the industry

Challenges

Changes are afoot. Depending on the situation and the company:

- A new CIO might be the next hire. This
- A new CEO might be the next hire
- Ramping IT spending might prove easier than ever before
- Having an "Improved Operational model" for the IT department might prove timely

What to do?

Your life as a dinosaur is over. Put the resume away and help guide the company to becoming a shooting star.

Take the results of the dinosaur steps and:

- Create a customer unit… with representatives focused and empowered to serve the company and customers
- Develop IT budgets without traditional cost constraints and ensure that the spending was developed with the department heads, and they feel complete ownership
- Implement IT department systems modeling after the IT consulting practices (Project planning, Time & Expense capture, billing, change control)
- Relinquish ownership and responsibility of the budget to the department heads. Maintain your own budget to manage your IT Spending
- Prepare business oriented measures of performance. Age of accounts receivable, engagement costs/profitability, staff utilization

Quadrant Sheep

Telltale Signs

- CIO reports to the CFO, with a sizeable budget and department
- Significant IT spending has occurred in the last 5 - 20 years in automating internal operations
- CEO is frustrated with growing IT spending without discernable benefits attributed to sales (all measured benefits have been internal cost reductions)
- IBM and others like big blue are well ingrained into IT operations
- 60% of IT spending goes toward maintaining and/or upgrading existing systems
- IT decisions take significant time and each project must be justified with careful TCO or ROI calculations
- The front line departments initiated any new, radical applications affecting customers
- IT department concerns themselves with: budgets, standards, and infrastructure

Challenges

- The herd is about to be lead in a new, exciting direction. Be prepared
- IT spending is so enormous, it is justifiable to implement systems to help control IT Spending alone… (one step closer to running like a consulting practice)
- Department heads are very dissatisfied with the conflicting objectives of IT: Cost control vs. User satisfaction. They are ready to own their IT Spending
- Department heads have seen the operational benefits of IT and are screaming for IT to help improve sales and customer interaction
- Department heads are so jaded with the past IT department response,that they won't believe and new IT Department running like a consulting practice
- IT performance metrics are not used today, so implementing new "business oriented" metrics will be easily accomplished
- The promise of a new operational method might help stop the mass exodus of good staff to IT Consulting practice. Especially if there are performance incentives

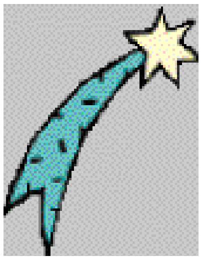
What to do?

Sheep, in most cases, will have greater difficulty changing the viewpoint of the IT Department. "IT spending should be controlled by IT", is traditionally the viewpoint.

Analyze current operations and determine:

- user satisfaction currently (realistic results only)
- metrics used today (if any)
- adequacy of current IT systems to manage IT spending
- Follow the steps prescribed above

Quadrant Shooting Star



Telltale Signs

- The new CEO has previous history within or using Information technology
- The CEO and executive team actively participate in setting IT Strategy
- TCO (total cost of ownership) is not relevant. Customer experience is key
- Internet connectivity at home is a must. How else would you learn of new business opportunities
- IT periodicals are delivered throughout the company and not just to the IT Department

Challenges

- The shooting star has the best opportunity to configure the IT Department as an IT Consulting practice. However, the Shooting star also has it 's set of opportunities and challenges:
- Where spending is less governed by cost,IT Departments in the shooting star quadrant are concerned that management systems may impede deliver or creativity.
- IT within a shooting star looses sight of the purpose of IT. IT is an enabler to improve company operations and customer interaction. Good consultancies guide the organization to spend time and money wisely

What to do?

- With Information Technology delivering competitive advantage or value to the organization, the internal IT Consulting practice approach should be well received
- Create internal customer service organization with complete focus on serving business requirements. Communicate clear customer service and staff utilization metrics
- Aid in the development of IT spending for each of the business lines and ensure complete ownership and responsibility from each of the department or line of business execs
- Implement supporting business management systems to help manage and control the consulting practice: Engagement Management, Customer management, project management, Time & Expense management and Billing
- Solicit frequent feedback and strong customer relationship