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# Optimizing Business Performance: Using IT for Competitive Advantage

Complimentary Executive Summary

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# Optimizing Business Performance: Using IT for Competitive Advantage

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## Executive Summary

The link between corporate performance and effective information technology (IT) management is clearly emerging. Companies that are leaders in their markets and industries ("Market Leaders") are better at using IT to enable business strategy. Market Leaders deploy IT more strategically, and in doing so maximize the impact IT has on corporate performance.

In this economic downturn, Market Leaders are spending the same amount on IT as other companies, but are spending more strategically. In the past, they invested more than other companies to automate and transform business processes. In challenging times, Market Leaders are better able to adjust spending levels to economic conditions. By investing more during up-cycles, they can invest less during down-cycles and still benefit from better business performance—in part due to greater IT automation.

Most companies apply an arms-race mentality to IT investment, calibrating their total IT spending to industry benchmarks. But the Market Leaders distinguish themselves by how they invest in IT. Three dimensions of "how" characterize their approach:

### Strategy:

- Higher levels of business automation
- Rapid adoption of strategic technology
- Focus on investments with near-term payback

### Governance:

- Robust portfolio management capabilities
- Prioritized technology investments
- Strong collaboration that aligns IT and business units
- Less focus on enhancing current systems

### Implementation:

- Focus on application development to enhance business functionality
- Outsourcing used to support new development vs. ongoing operations
- Lower overhead and operating costs

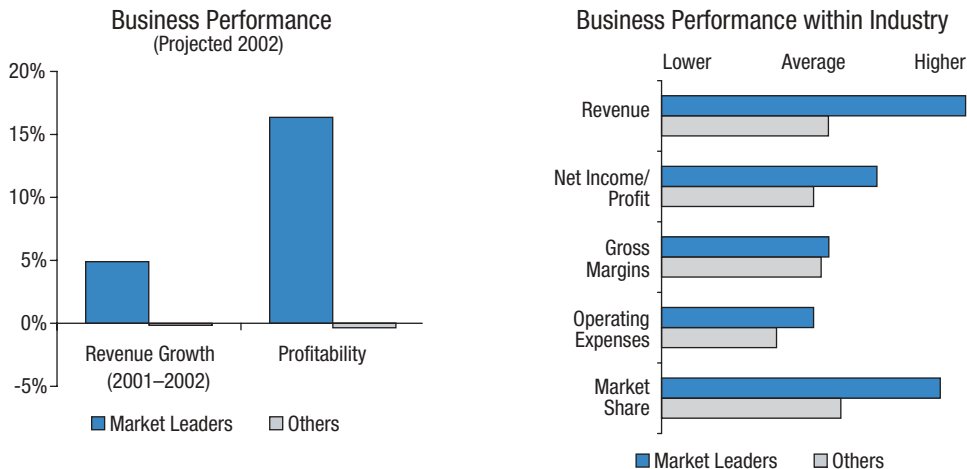
## Study Methodology

In August 2002, PRTM and The InterUnity Group, in conjunction with *CIO Magazine*, conducted an Internet-based benchmarking study to determine how companies in a wide range of industries use information technology to gain a competitive edge. Fifty-eight participants completed a detailed, 15-page online questionnaire with 250 data elements covering the following topics:

- Demographic Information: Basic contact and industry information to ensure the integrity of the survey results
- Business Strategy & Performance: How IT enables business strategy and performance
- IT Governance: How the IT department is organized and managed
- IT Expense Breakdown: Details of IT spending
- IT Labor Allocation: How IT labor is allocated by service
- IT Allocation by Application: IT application spending trends
- IT Allocation by Business Unit: IT spending by business unit

Companies recognized as leaders in their market or industry ("Market Leaders") were selected based on their overall business performance (revenue growth and profitability), as well as their business performance within their respective industries (revenue, net income, gross margin, operating expenses, and market share—Figure 1). The sample of Market Leaders was compared against other companies ("Other") to evaluate IT management practice differences.

Figure 1



## Findings and Conclusions

Technology alone does not confer a competitive advantage. But the strategic use of IT to improve key business processes can strengthen a company's competitive position. Companies that are the first in their industries to transform and automate their businesses gain an edge, but must be careful when investing in new and immature technologies—and mindful of the risks involved.

Now that IT is fundamental to virtually every aspect of the business, and underlies almost every performance improvement effort, strategic IT management has become a core competency for leading companies.

Aligning IT and business priorities is also a key business competency. Although many companies believe that their IT function and business units are aligned, only a few companies have actually achieved this alignment and have the bottom-line results to prove it.

Market Leaders have superior IT strategy practices. They select and execute higher value projects. They allocate IT funding according to business process maturity and economic conditions—not by using a simple percentage-of-revenue formula. Cross-functional governance teams shift resources among business units and adjust priorities as needed. Put simply, leading companies invest where there is the greatest potential return, instead of following historical budgetary allocations.

Leading companies also execute better, and at a lower cost. They place greater emphasis on getting the best return on their IT investments by improving business value, reducing operating costs, and decreasing time to results.

In short, they make better decisions, have more disciplined management processes, and govern with performance-based metrics. The result is stronger bottom-line business performance and a competitive advantage.

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## About the InterUnity Group

**InterUnity Group** researches the world's largest corporations to understand how Market Leaders utilize IT differently than Followers across 24 industries.

## What makes us different - InterUnity 600 Knowledgebase

- The **InterUnity 600 Knowledgebase** enables InterUnity to rapidly calibrate IT performance. The average company in the Knowledgebase had 2002 revenues of \$10 Billion. Our consultants can then create and execute the "Road Map to Optimized Performance."
- Our team of industry veterans averages more than 20 years of hands-on experience with companies such as Fidelity Investments, Putnam Investments, State Street, Advent, Bristol Myers, HP/Digital, McKesson, Storage Technologies, NSTAR, Saint Gobain, and EMC/Data General.