

Opening the “Black Box”: Identifying and Attacking Drivers of IT Expense within a Diversified Global Enterprise

Industry & Client Situation

A global diversified industrial goods company was dissatisfied with the return on its investment in information technology. IT did not play a prominent role in the company’s business strategy, yet IT expenditures were significantly higher as a share of revenue than any of its nearest competitors. Furthermore, an informal study of companies in this industrial’s peer group concluded that high spending on IT as a share of revenue actually correlated with poorer overall performance. Corporate IT managers attributed growing IT expenditures to duplicative or independent IT investments made in each of the four major Business Groups. Business Group CIO’s (and Group Line Managers), in turn, derided Corporate IT as slow-moving, non-responsive, and far too expensive for the services provided to the Groups.

Approach

Our analysis concluded that at the heart of the company’s overspending on IT, whether at Group or Corporate levels, was a fundamental failure to address the challenges of a “federal” organization model (i.e., one that assigns a great deal of authority to subsidiary units that bear profit and loss responsibility). The company’s IT organization was highly decentralized, with business units, divisions within business units, and even individual plants having their own independent IT Groups. This fragmentation led to a proliferation of ERP applications (many tailored to the needs of a just single plant), a fragmented IT spend that failed (in dramatic fashion) to maximize the company’s leverage on vendors, a chargeback system that encouraged business units and divisions to opt out of the shared infrastructure, and generally weak governance from the center.

The keys to solving the company’s IT problem, given constraints in place, were to:

- 1) Redesign the chargeback system to encourage desirable behaviors (e.g., consolidating onto a smaller number of ERP applications) and discourage undesirable ones (e.g., maintaining one’s own data center);
- 2) Convince business units to participate together in negotiations with vendors to maximize leverage on them; and
- 3) Begin transitioning selected development and maintenance responsibilities to proven IT service providers in India.

Results

The 2004 IT budget is projected to decline by 20 percent, with the 2005 budget projected to decline by a further 15 percent – all while delivering the same level of service to internal customers throughout the organization.