



■ ■ ■ ■ The Value of IT

Michael Smith
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IT's affect on Productivity

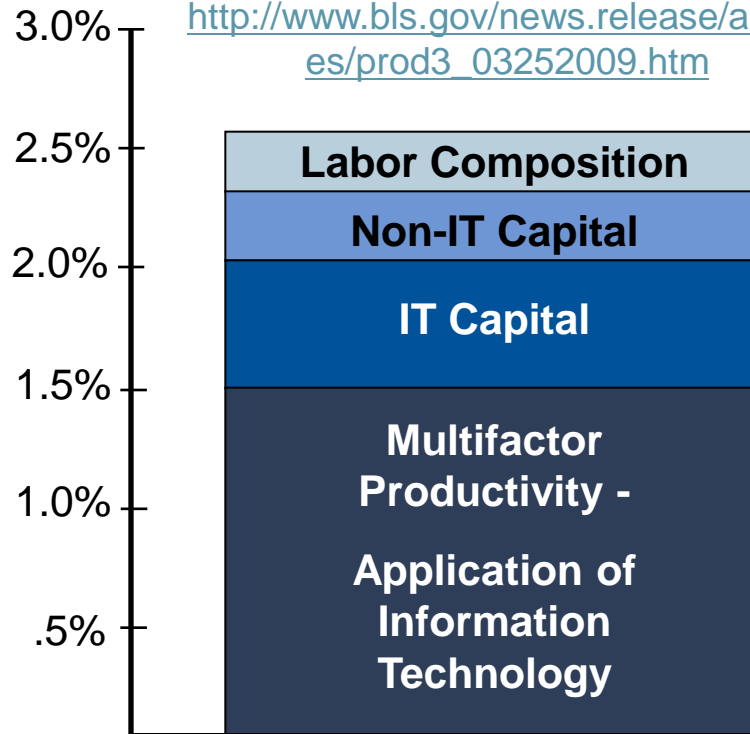
Data From The US Department of Labor

2000 – 2007

most recent data available

http://www.bls.gov/news.release/archives/prod3_03252009.htm

Productivity:
Average
Annual
Growth
Rate



Bureau of Labor Statistics estimates that 80% of US Productivity Growth comes from IT.

But IT productivity is **Not** the same for all companies!

“The IT Productivity Gap” by MIT Professor Erik Brynjolfsson

“IT is correlated with productivity, but there are substantial variations among companies”

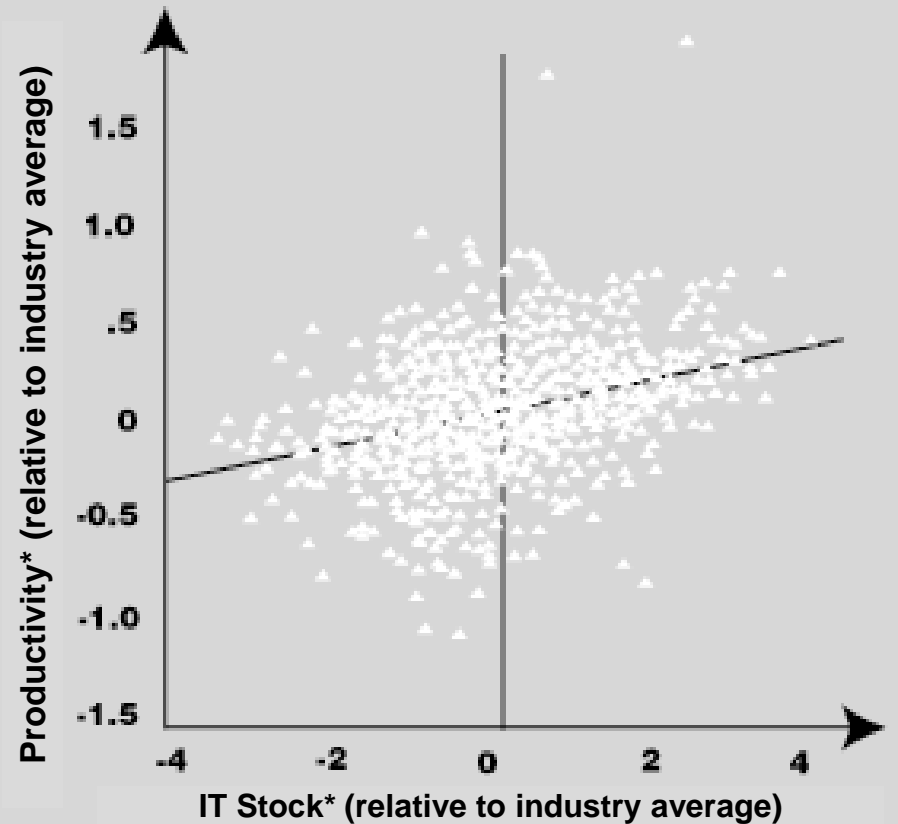
http://ebusiness.mit.edu/erik/Optimize/pr_roi.html

IT Stock is measured as the current replacement cost of IT hardware stock per worker.

Productivity is measured as real output divided by a weighted average of all inputs, including labor and non-IT capital.

Base: 1,167 companies

Data Erik Brynjolfsson and Lorin Hitt



- **Moore’s Law** provides continued productivity improvements from IT
- **Variation among companies** will maintain IT as a competitive differentiator

Key Issues

- 1. What are IT managers in the public sector being asked to do?**
- 2. How are IT managers responding to these challenges?**
- 3. How should IT its contribution in terms of business performance?**

2010 Public Service Cost Challenges Will Be Different From 2009 — Some Are Multiyear

2009

- Procurement Actions
- Cutting Projects & Programs
- Staffing Actions
- Across-the-Board Cuts
- Consolidation & Shared Services

IT Supply

2010+

- Prioritization
- Business Case Scrutiny
- Service-Level Adjustment
- Industrialization
- Transparency

IT Demand

Doing More With Less; Doing Less With Less

More



Doing



Less

Expansion Economy

- Expand Risk Tolerances
- Prepare for Next Recession
- Start Multiyear Programs
- Stabilize IT Portfolio
- Renegotiate Partnerships
- New IT Metrics

Round 1 of Optimization

- Virtualization
- Project Cancellations
- Data Centers Consolidate
- WW Support Consolidates
- Reduce Contract Labor
- Renegotiate Contracts
- Benchmarking

Return to Growth

- Pent-Up Project Demand
- External IT Services
- Keeping Up With Demand
- Decentralization
- Stop Austerity Practices
- Synthesize Reorgs.
- Hire Different IT Skills

Round 2 of Optimization

- Demand Management
- IT Performance Mgt.
- Cut Business Units, Programs, Product Lines
- Run IT Like a Business
- Accountability
- IT Portfolio Mgt.

More

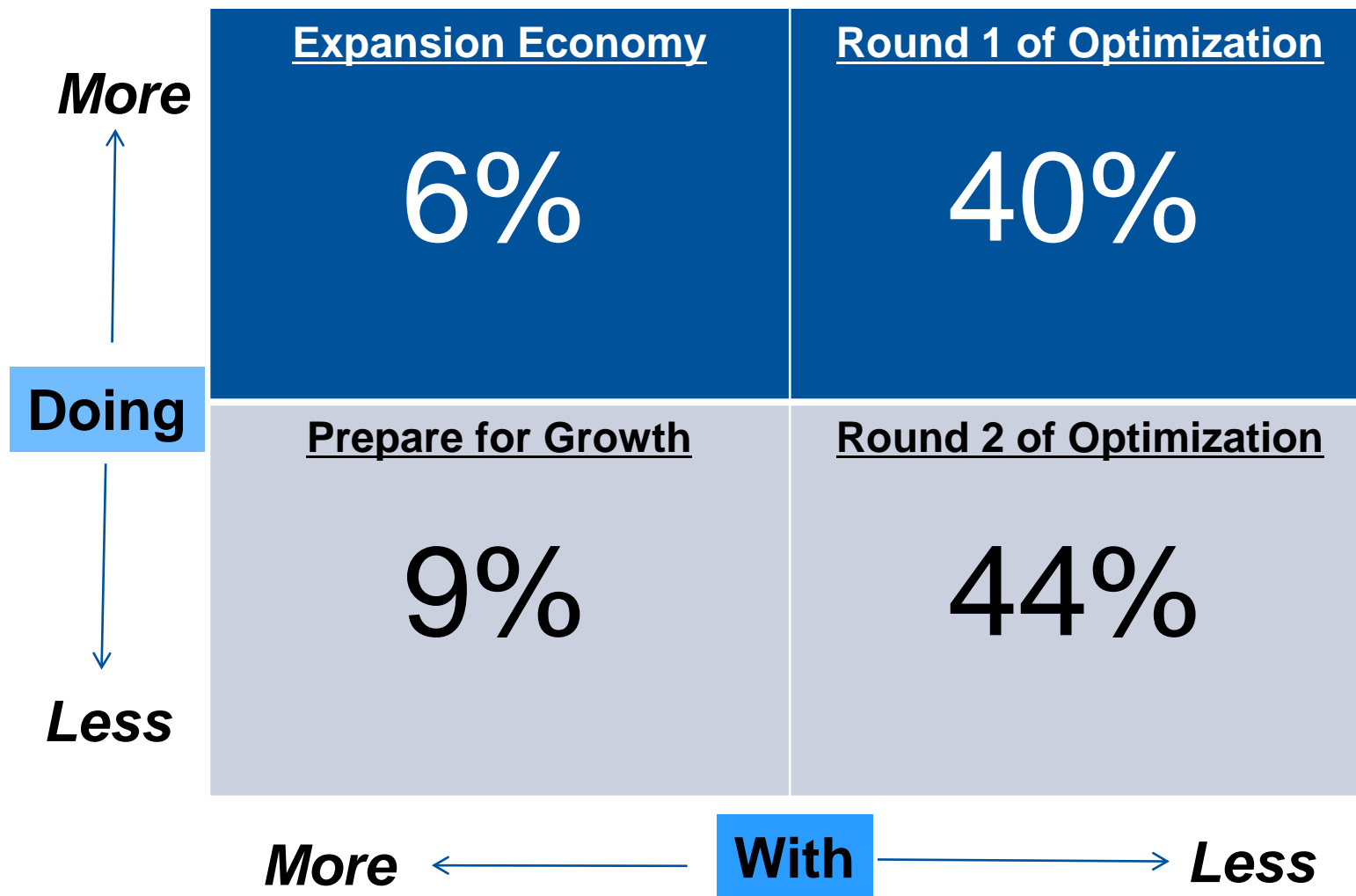


With



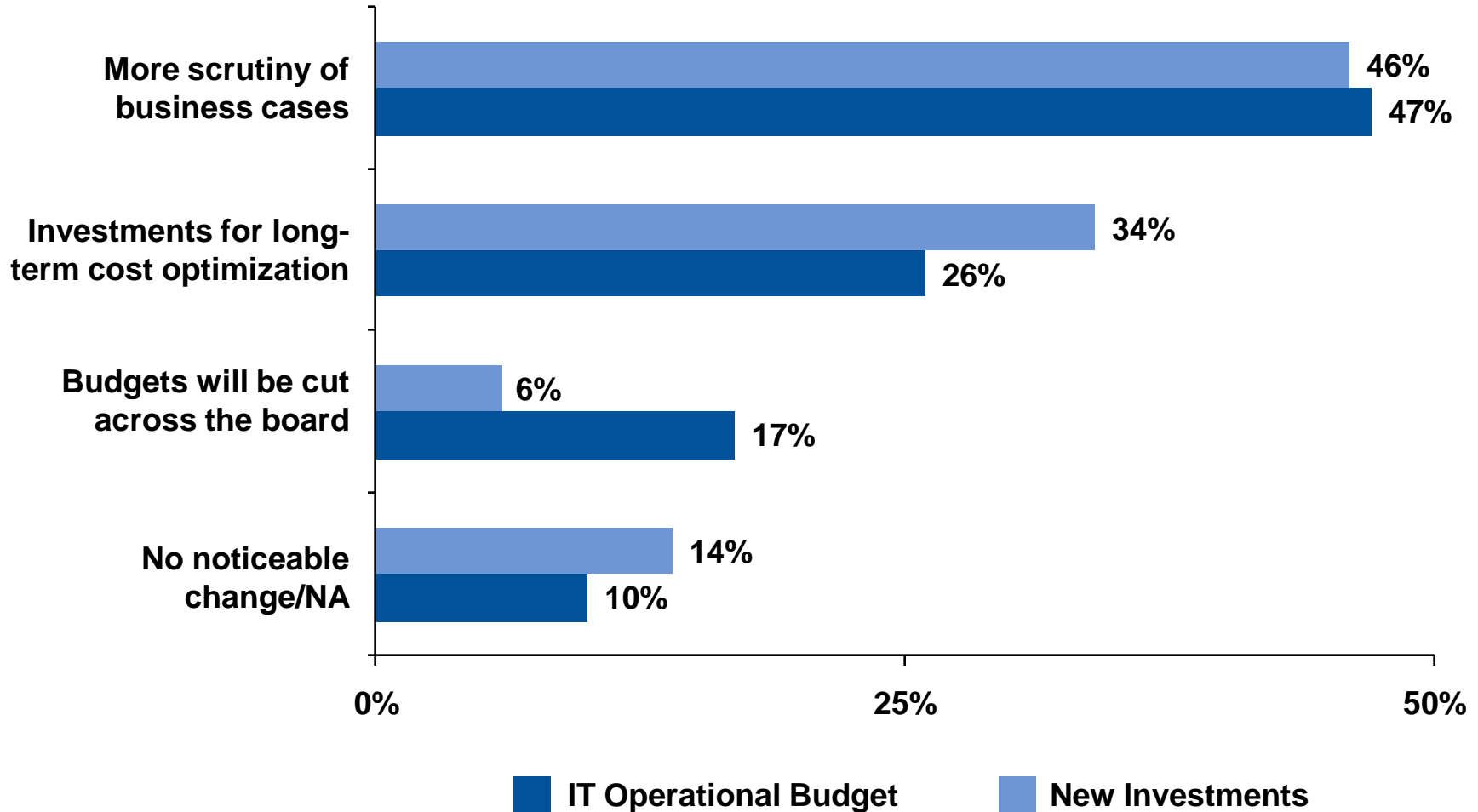
Less

Doing More With Less — Doing Less With Less – Recent Survey Results



Source: Gartner, N=109, April 2010 Webinar, Cross Industry Results

Government IT Organizations' Response to Recession and Less Tax Revenue

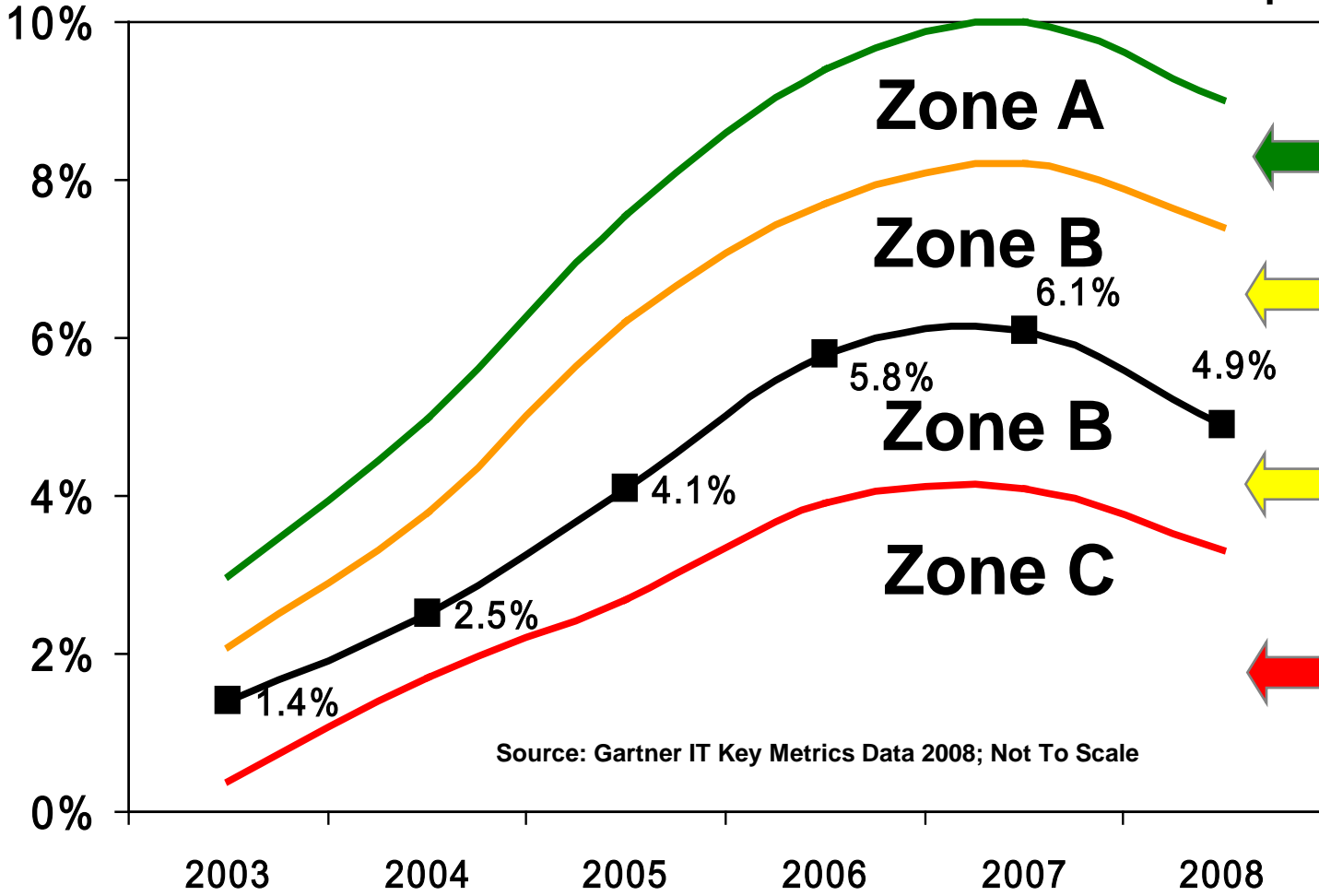


N = 70, 2Q 2009, Federal, State, Local Respondents. 20% Are Federal Govt.

History of Below-Industry IT Spending Increases or Decreases Limits Cost Optimization Options

Average change in year over year IT spending

Ability of IT to Contribute Independently to Cost Goals



Source: Gartner IT Key Metrics Data 2008; Not To Scale

- Cost Savings within IT and Procurement
- Joint Business & IT Cost Savings
- Process Improvement, Business Restructuring & Innovation

Under-Investment Can Mean Radical Changes are Necessary

Opportunities by Enterprise Zone Type: Some Will Change Their Zone Type in 2010

Zone A Enterprises 15% to 25% Savings Potential

- Can Cut Spending & Costs Because of Overspending
- Industry Less Impacted by Recession
- Prepare for Return to Growth
- Evaluating Acquisition Opportunities
- Prepare to Punish Weaker Competitors
- Leverage Transparency Initiatives for Future Regulation

Zone B Enterprises 12% to 20% Savings Potential

- Prioritization of Identified IT Savings Opportunities
- Cut the Applications Portfolio While There is a Mandate
- Create Strategic Vendor Management Competencies
- Relentless Focus on Business Value & Metrics
- Run IT Like a Business: IT Services, Chargeback
- Revisit Business Cases for Investment

Zone C Enterprises 7% to 14% Savings Potential

- Lower Service Levels
- Allow Decentralization — Recentralize Later
- Industry & Vendor Standards: ITIL, CoBiT, CMMI
- IT Outsourcing: SaaS & Managed Services
- Formalize Legacy Migration Programs
- Expect & Prepare for IT & Business Restructuring

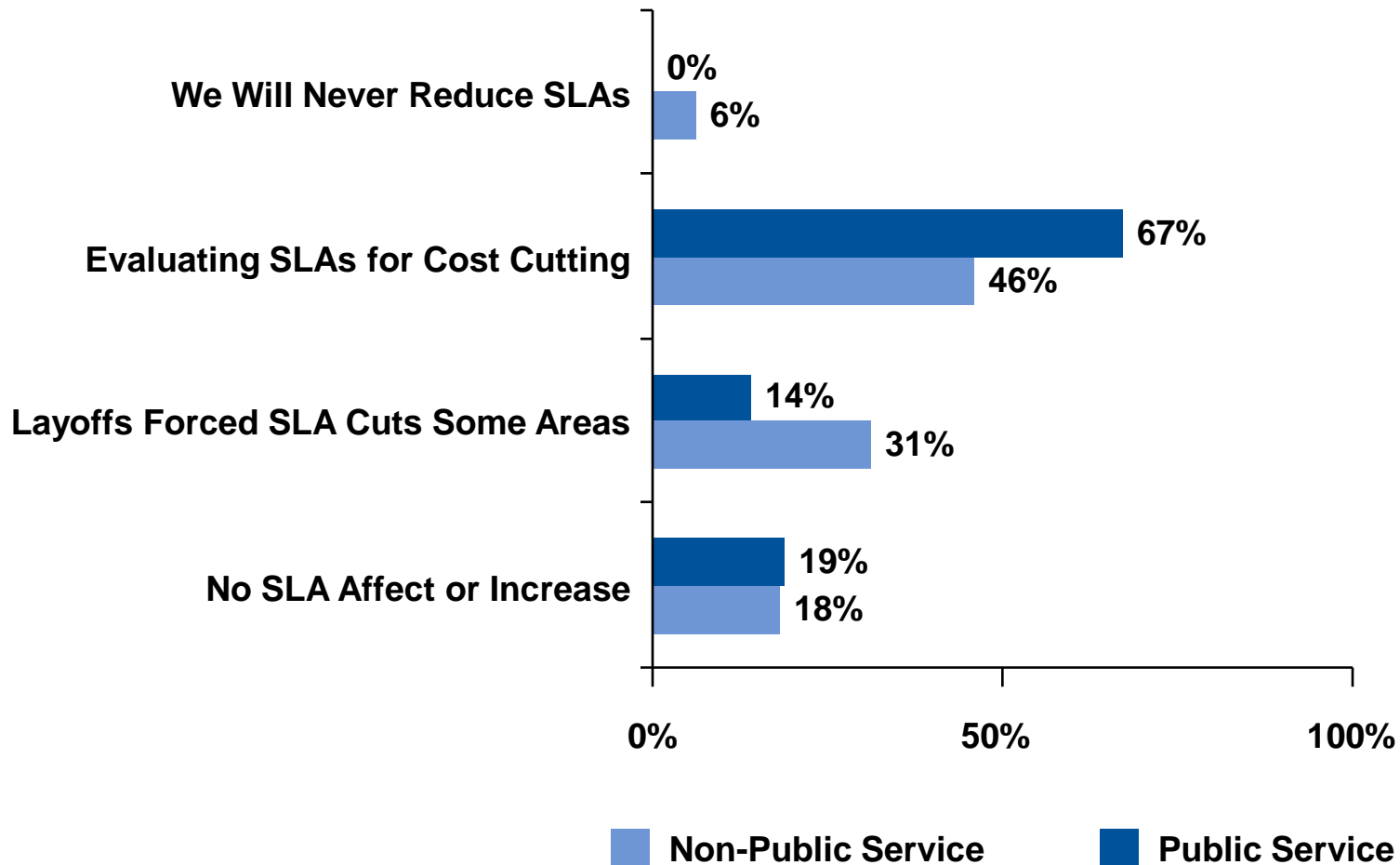
Short-Term Government Cost Optimization Initiatives — Already Initiated or Planning to in 12 Months

		Already Done	Plan to Do	SAVE
IT Procurement	•Hiring internally at lower rates than contract staff	20%	17%	12%
	•Deferring desktop replacements	27	30	22
	•Renegotiation of contracts	31	40	9
	•Consolidation of hardware and software contracts	24	51	9
Cost Savings Within IT	•Open-source desktop software	6%	19%	11%
	•Consolidation of data centers within a single agency	19	19	14
	•Automation of software distribution	31	30	5
	•IT process improvements (e.g. ITIL, CMMI)	24	43	4
	•Virtualization of storage and servers	43	36	11
Joint Business & IT Savings	•Asset utilization analysis	7%	31%	8%
	•Teleworking	23	17	4
	•Employee self-service	20	30	3
	•Videoconferencing	23	33	7
Process Improvement, Business Restructuring & Innovation	•Sharing citizen call centers across agencies	6%	17%	5%
	•Sharing IT help desk across agencies	9	19	3
	•Standardizing administrative applications (e.g. ERP)	19	34	7

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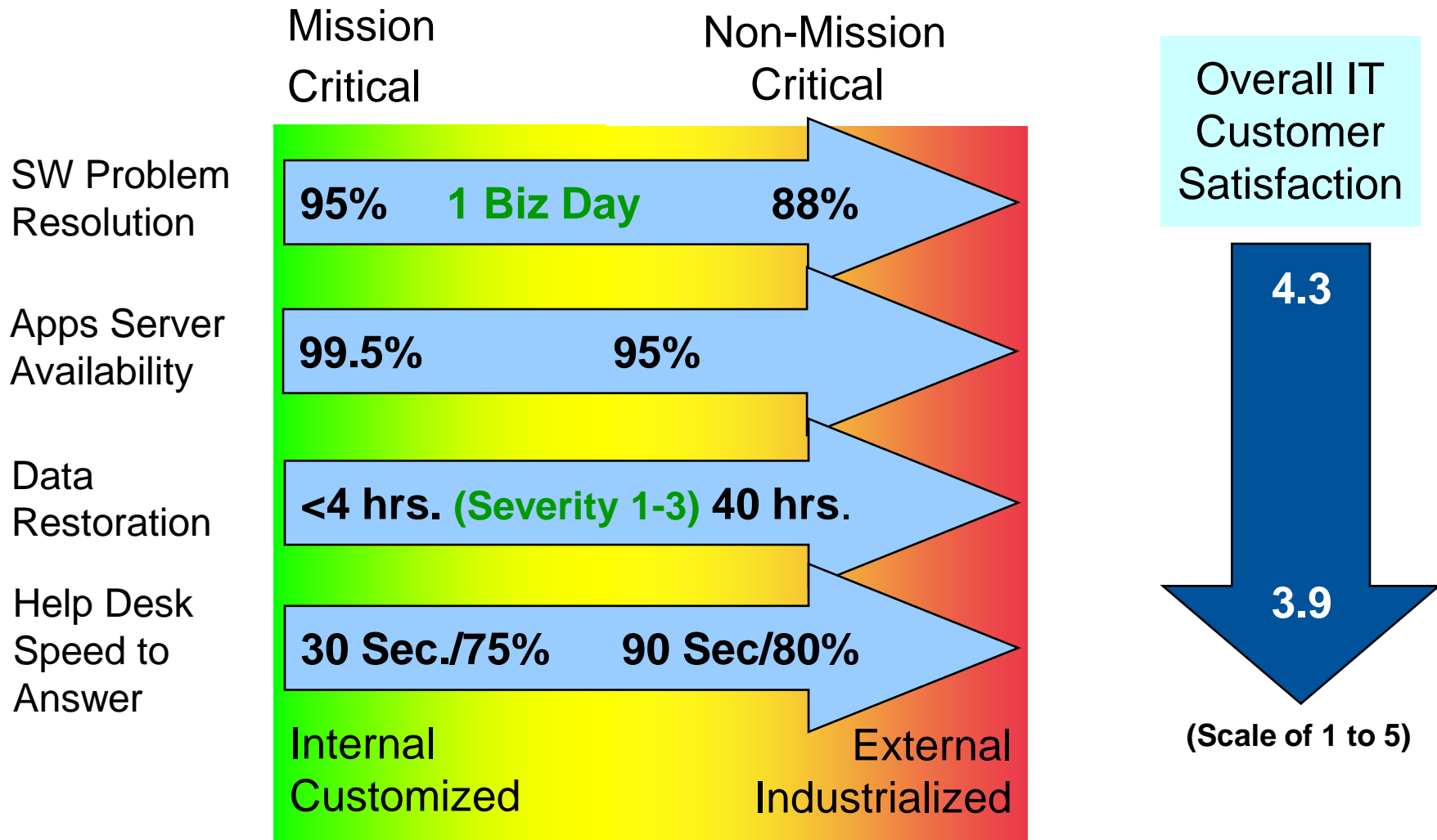
N = 13 to 30 for Savings; Anecdotal

Recession's Affect on SLAs — Public Services More Prudent About SLA Realignment



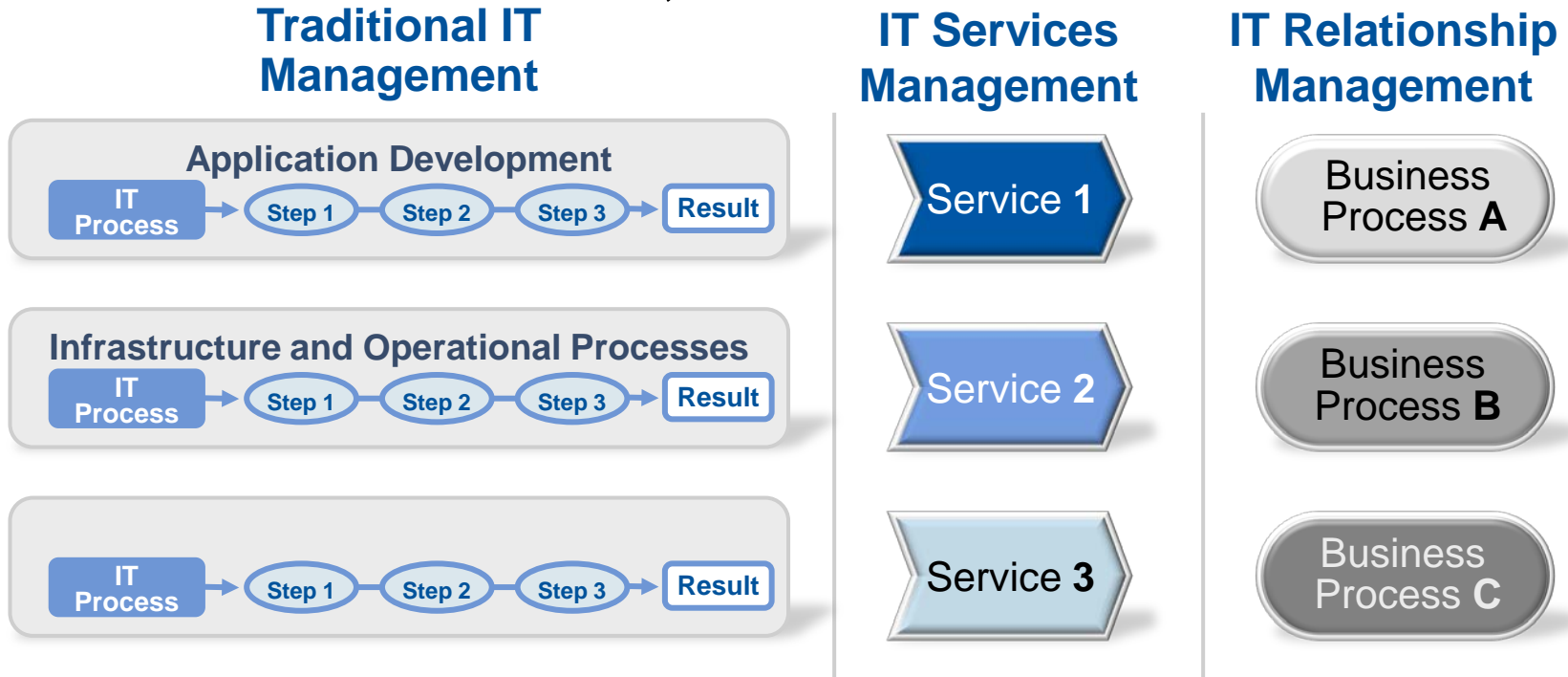
Non-Public Service N = 160; Public Service N = 21

More Stringent SLAs for Mission Critical Only May Drive Down Client Satisfaction Metrics



IT Business Effectiveness: The Demand Side of IT Value

Effectiveness: doing exactly what is needed, when it is needed.



**The IT Service Catalog Is the Link Between
IT Capabilities and Business Value**

IT Business Effectiveness: Properly Defined IT Services

Which is defined in market terms?

Portfolio A

- Server administration
- Back-up & recovery
- Network monitoring
- Production control
- Network admin.
- Password control
- Help desk

Common Practice

Portfolio B

- Biz process automation
- Project management
- Employee provisioning
- Workplace support
- Biz process improvement
- Security management
- Asset lifecycle mgmt.

Best Practice

Services need to be described based on what customers want to buy, not what IT wants to sell!

IT's Role in Creating Actionable Transparency – Make Better IT Decisions that Improve Government

Internal IT Processes

- Application Development
- Infrastructure & Operations
- Incident processing
- Business Continuity Processes

IT Services

- Provisioning
- Project Management
- Automated Business Processes
- Internal IT

IT Value Contribution

- Constituent Responsiveness
- Non-IT Operational Efficiency
- Partner - (Supplier/Intermediary) Effectiveness

Efficiency Transparency

Effectiveness Transparency

IT Metrics

IT Services

Citizen Value

Recommendations for Public Service IT Leaders

- ✓ The world has changed: Challenge underlying assumptions
- ✓ Develop an understanding of "good enough": commodity IT or differentiation using IT
- ✓ Determine what IT management practices and disciplines are missing now that are needed for cost optimization
- ✓ Set expectations for lower IT service levels
- ✓ When you have less funding, there isn't much left to do and strategic decision will be made
- ✓ Ask for help from internal and external clients: Ask everyone to pitch in
- ✓ Remember IT is essential and you have the



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