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Rethinking the Value of IT to the Business

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Tying IT expenditures to the business value they deliver has long been a key concern for fashion industry executives. Many CEOs feel that their IT spending is too high for the value their companies receive. Not surprisingly, CIOs often believe that IT is under-funded for the value it delivers. As usual, reality lies somewhere in between these differing viewpoints.

Properly measuring IT's contribution to the business requires considerable effort. One of the biggest challenges is finding and quantifying business benefits. Benefits such as enhancing customer satisfaction sound great, but are difficult to quantify in financial terms. Since cost savings are the simplest benefits to quantify, too many ROI analyses fall into the trap of relying entirely on costs to justify investments. To better align IT and business value, leaders are moving beyond the classic return-on-investment formula to prioritize their IT investments.

When a new technology project increases productivity, the cost-focused analysis calculates the savings of salary, benefits, and related overhead costs for each headcount reduction. But what is the value of that person's production to the company? As employees typically produce business value in excess of their cost, the better calculation focuses on the increased value gained from the enhanced productivity.

Indeed, all financial benefits come from either lowering costs or increasing revenue. Focusing solely on cost savings may be causing some companies to miss valuable business opportunities. In addition to cost savings, companies are increasingly calculating the potential for increased revenue through IT initiatives that can help increase sales, raise productivity, improve customer satisfaction, and enhance competitiveness.

Leading companies are also looking well beyond financial benefits to assess the impact of IT on business goals. In the fast-changing fashion business, some are developing completely new units of measure. IT initiatives that, for example, help increase on-time deliveries, shorten process timelines, prevent missed customer opportunities, and enhance collaboration play a significant role in defining value in today's customer-focused marketplace. These and other factors are driving a shift to tying IT spending to gross profit rather than the classic percent-of-revenue model.

Increasing the understanding of their impact on business value enables IT teams to better focus their efforts on activities that bring the greatest overall business value. Unfortunately, some of the largest and most important benefits are the most difficult to measure. Most fashion companies agree that speed and agility are critical to their success, yet many fail to fund some smaller, quick-win IT projects simply because they do not meet traditional ROI metrics.

Fashion companies also want and need employees to spend more time creating new capabilities in areas like design, product development, and collaboration. However, some IT departments spend 80% of their time maintaining existing infrastructure and applications. By measuring the value of innovation and the time spent on it, companies will more significantly encourage the behavior required to build on this sustainable business advantage.

While there are no standard formulas that work for all business value calculations, almost any situation can be analyzed with a custom approach. The combination of accurate cost and benefit information enables better ROI-based IT investment decisions.

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