How to pull out
of an information
technology tailspin

IT-powered growth

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BAIN & COMPANY

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How to pull out of an information technology tailspin

With interest rates hovering near 40-year lows, business growth for real estate lenders was brisk. But at a leading regional US bank, the mortgage unit wasn't delivering its expected lift. Problems that had been building for some time became blazingly apparent: The bank's information technology organization, perceived as having failed to deliver on a string of projects, had lost the confidence of the senior executive team. IT spending had fallen 40% below the industry average. When mortgage lending took off, the bank's aging systems lacked the capabilities needed to quickly match competitors' quotes and programs. Frustrated, the bank executives had no choice: the IT team was cleared to build the necessary mortgage system—in a $100 million multiyear project.

Like pilots who fly through bad weather and lose all sense of the horizon, companies can slip unsuspectingly into a downward technology spiral. Trouble usually starts with a chain of miscalculations that end up clipping IT's wings. An IT project veers off course, undermining confidence. Investment in IT falls, and under pressure to get new offerings quickly to market, IT infrastructure consistently takes a back seat to simply getting new features out the door. Eventually, the organization starts to view IT as a hindrance rather than a help in hitting growth targets.

Buckle up—there's turbulence ahead

To better understand how IT contributes to revenue growth, Bain & Company recently surveyed 362 senior business and IT executives around the world. The results showed that the vast majority—more than 70% of the respondents—agreed that IT spending is essential for growth. Yet, most struggle to realize IT's potential in their companies; 60% of the respondents agreed that IT has been inhibiting their growth. (See figure 1.) Even among IT *believers*, 29% report that their IT capabilities today actually inhibit growth in the majority of business areas. Said one senior executive: "We believe that IT can enable growth—but it's not working for us."

The IT spending levels of the believers and those of the companies that actually *achieve* their IT-led growth targets provide one clue to the cause of thwarted ambitions: lack of commitment and investment. The believers devoted 4.6% of company expenditures to IT investments, versus 7.4% for the achievers.

Why do organizations lose their IT bearings and knowingly inhibit their ability to grow? A series of in-depth interviews with senior corporate executives, including chief information officers, led us to the answer: Over and over, the executives described a subtle, but unmistakable, pattern of self-perpetuating IT and business project failures that eroded their confidence that they could spend *effectively*. (See figure 2, on page 2.)

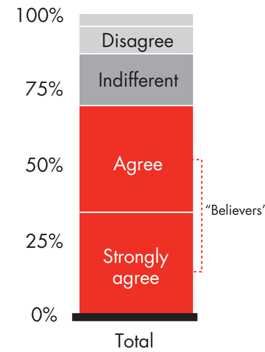
The downward spiral

Most executives we interviewed could identify a clear tipping point—a single failed project or cluster of projects—that marked the onset of their company's downward spiral. The first symptom is that spending on new growth initiatives falls relative to total IT spending, and the money that remains is earmarked to improve efficiency and productivity.

IT tailspins typically occur in two forms. The first pattern is marked by a lack of consensus on goals and a loss of trust between the business side of the company and the IT organization. The company's business executives hesitate

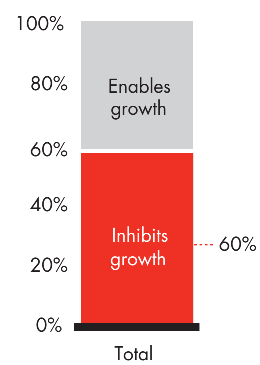
Figure 1: Most companies believe that IT is required to enable growth...

"In our company, IT is highly relevant to enabling growth"



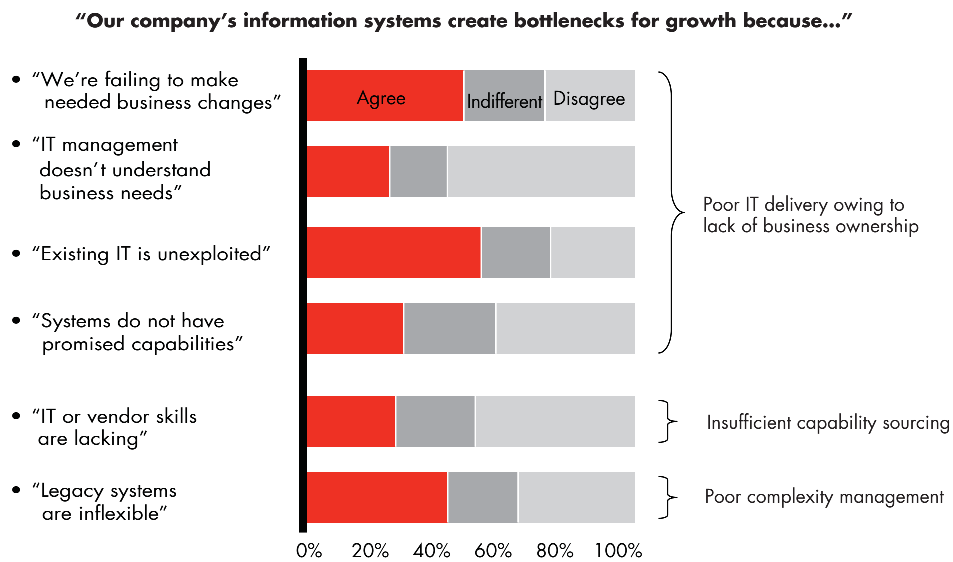
...but 60% say IT creates growth bottlenecks

"IT has been inhibiting our efforts to grow"



Source: Bain survey (n = 362)

Figure 2: Survey responses highlight typical outcomes of poor ownership of IT projects



Source: Bain survey (n = 362)

To see if your company is headed for an IT-powered tailspin, take the quick self-assessment quiz on page 4.

to embark on highly visible IT projects. That results in progressively lower budgets, which, in turn, mean fewer new initiatives and deferred upgrades to infrastructure. The company's ability to use IT to fuel growth withers. (See figure 3, opposite.)

In the second pattern, business and IT agree on strategy objectives, and IT spending remains stable, but the company's business executives resist investing in anything not connected with their immediate needs for business applications. Systems infrastructure falls out of date, common databases do not get built, and legacy systems become increasingly complex and fragile. Initiatives that rely on IT to power growth begin to fail, and success comes with longer delivery times, greater risk and higher costs. (See figure 4, opposite.)

Often, IT leaders and senior executives respond to this all too familiar pattern by trying to "fix" IT. But initiatives that attack the problem systemically with massive investments are doomed to fall short. In our experience, the best way to restore trust is to identify a single growth initiative that relies on IT, gain the support of the business unit sponsoring it and focus intensively on making it a success.

Pulling out of the IT tailspin

Three principles can help companies spot an appropriate project to supply the IT uplift: First, the project must relate directly to business growth. Investments to enable growth—loyalty initiatives, sharper customer segmentation, expanding from products into services—are vital to the business and therefore good candidates for regenerating trust in IT. Second, the executive responsible for the relevant business unit, not the CIO, must "own" the project and commit to its success. Third, the project must take no longer than 12 months to complete.

The results can be dramatic. Consider, for example, how brokerage firm Charles Schwab recently changed course and regained confidence in IT-powered growth. Schwab executives had long viewed technology as a source of competitive advantage and consistently backed this conviction with IT budgets that, at 12% of revenue, far exceeded industry averages. But while overall IT spending remained strong, the allocation of funds was growing lopsided. Pressure to deliver new applications meant less money to refresh infrastructure, swap outdated legacy systems and eliminate complexity. "We never really got a complete transformation into new technologies," said chief information officer Gideon Sasson. "We always kept the new and the old in operation together because the business didn't own that problem." The result: Schwab's IT organization increasingly found itself wrestling with longer delivery times and higher-cost projects.

By 2003 the firm's IT efforts had drifted off course. A two-year, $50 million effort to develop a new portfolio-management system that would improve the level of service to high-net-worth customer accounts couldn't accommodate the needs of Schwab's most important clients. The problem, Sasson believed, was that the technology group hadn't worked closely enough with the business team to develop detailed requirements for the system. Schwab ultimately improvised a solution, bringing in new people with the requisite skills to put the troubled project back on track. But the damage was done: IT's reputation had been tarnished, morale sank and trust had been lost.

To restore the balance, a business-led IT project, called the Cambridge Initiative, was launched in 2004. With the Individual Investor business unit—the group that stood to gain the most from project's successful completion—in charge, the Cambridge team focused on providing customers with a state-of-the-art computing utility for online trading and portfolio analysis. The project attacked head-on the IT infrastructure clutter that had caused operating costs to escalate and response times to slow down. Schwab earmarked $50 million to transfer the processing of trades from the firm's mainframe IT environment to a more flexible platform.

In its first 12 months, the alliance between the business unit and the IT team went a long way toward restoring trust in IT's contribution to profitable business growth—and instilling a sense of shared destiny among the IT and business organizations. "True alignment is when the business has a real stake in projects' succeeding—and experiences consequences from failure," Sasson said.

Staying on course

It doesn't always require a project with the broad reach of Schwab's to pull IT organizations out of a stall. The key is to find an initiative that establishes a winning precedent for future growth; scale is secondary.

Once the tailspin has been averted and trust has been restored, companies must remain vigilant to avoid the perpetual risk of tumbling into a new downward spiral. The alignment between IT and the underlying businesses it's meant to support is inherently unstable, as every CIO and line business executive knows, and requires constant adjustment to keep IT on course with business growth goals. As IT becomes more integrated with the rest of the business, however, companies will no longer have to concern themselves as much with tailspins and can focus more on soaring.

Figure 3:
The growth-inhibiting vicious cycle

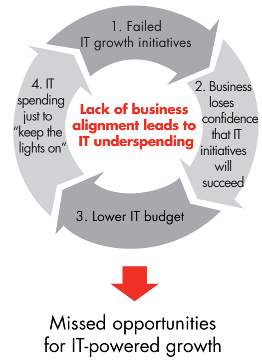
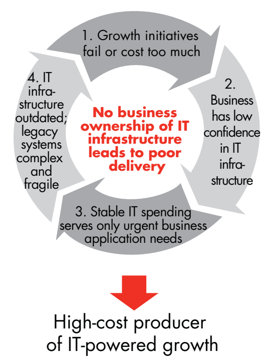


Figure 4:
The "believer's" vicious cycle



Is your IT growth engine sputtering?

Companies can ask these basic questions to determine whether IT capabilities are contributing to—or hindering—their growth.

1. Is your total IT spending below or above the average for your industry? *(Clearly below, 1 point; average, 2 points; clearly above, 3 points)*

2. What share of your IT budget is spent on new capabilities? *(0-10%, 1 point; 11-35%, 3 points; above 35%, 4 points)*

3. Who decides the size of your IT budget? *(Your company's business units, 1 point; business with IT input, 2 points; IT alone, 0 points)*

4. Is your company satisfied with its IT capabilities and services? *(Not at all, 0 points; yes, with prominent exceptions, 3 points; yes, 5 points)*

5. Is your IT organization familiar with—or consulted on—your business's growth strategy and initiatives? *(Neither familiar nor consulted, 0 points; familiar, 3 points; familiar and consulted, 5 points)*

6. Do you consider your competitors' IT superior to yours? *(Don't know, 0 points; in just a few areas, 1 point; usually not, 4 points)*

7. Does a business team have a major role in each IT project, including infrastructure and software? *(Rarely, 0 points; just for key projects, 3 points; always, 6 points)*

8. Does your IT team quantify the return on investment of its projects? *(Rarely, 1 point; where possible, 3 points; always, 4 points)*

Here's how to evaluate your totals:

A score of 4-14 means that fundamental IT performance and capability issues are inhibiting your company's growth.

A score of 15-20 means that IT is not powering growth and is performing poorly. However, it could do better with the confidence of and support from the business side of your company.

A score of 21-30 indicates your IT organization is not powering growth, despite business leaders who are IT "believers." It also shows IT needs business ownership for infrastructure projects.

A score above 30 means the IT and business teams are successfully working together to achieve growth.

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