



BUSINESS MODEL INNOVATION

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Are CIO's Inhibiting Revenue Growth and Profit Improvement?

Worldwide and despite recent mortgage related liquidity challenges in the US, there are many corporations with healthy cash flow and opportunities to grow. The trends follow both traditional and non-traditional paths. The strategic investments and organic growth plans of Volkswagen, Renault and General Motors in China are well documented. Similarly, there are trends among successful emerging country corporations such as Tatas, Mittal Steel and Wipro to expand through acquisition in western markets. Finally, there are still amazing hyper-growth markets such as the India telecommunications market, global natural resources or retail banking in Eastern Europe that are attracting local and multi-national corporation (MNC) attention. Global expansion strategies are all the more attractive in light short-term corporate valuation shifts. Currency fluctuations and one-time market events such as the US collateralized debt crisis are creating buying opportunities for firms who are on the positive side of these trends. All of these acquisition centric expansion strategies are in addition to traditional product line extension, new product development and business model initiatives already underway.

The variety of cost management and growth related IT initiatives within all companies are causing unprecedented consulting and software development demands on IT departments. For certain, cost cutting is still important; efficiencies must be achieved and continuously improved. The techniques in both of these areas are well known: 1) shift work to the most cost effective global location either internal or external to the company and 2) apply quality or six sigma approaches in combination with selective business process re-engineering. Approaches to manage unprecedented volumes of innovation centric global IT development, however, are not. First, cost management programs such as shifting workload to lower cost operations often undermine the firm's ability to support new business systems and the corporate growth agenda. At the same time, because the firm is not present in the largest and most cost effective IT talent markets, they have insufficient consulting and systems development labor pools to draw from. The result is an uncomfortable position for corporate CIO's whose capabilities may be concentrated in a suboptimal location and moving them might compromise growth. Even worse, this positions many corporate IT departments squarely on the firm's critical path to penetrate new markets, introduce new products and adopt new business models -- effectively limiting top line revenue growth and corresponding profits.



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CIO's need new strategies to enable, not constrain, their firm's revenue growth and profit generating plans. For example, if a bank introduces a new loan product in a new market it will require modified risk review processes and systems to ensure efficient execution. Moreover, the new processes and system has to meet local legal and regulatory requirements. How is a CIO, who is often constrained by local capabilities that may be insufficient and costly, supposed to facilitate business execution in new markets or product introductions for multiple, global and often diverse initiatives?

The notion of core competencies and outsourcing is globally well established. Leading firms such as Proctor Gamble have embarked on successful strategies that develop selective competencies and outsource the remaining processes to strategic partners. In our rapidly evolving global market, there continue to be exceptional value (cost, capability & innovation) arbitrage opportunities for IT functions and initiatives. CIOs need to implement prudent but significant partnering strategies in order to capitalize on these opportunities.

CIOs should begin by committing to partner with a global IT firm on a strategic and relatively large project with significant involvement from their internal business customer. Next, they should select a partner that possesses the qualifications, experience and price point desired. Once underway, in addition to executing the project flawlessly, the firm should focus on leveraging relationships to advance the partnership. For example, if a client project manager (PM) in Germany and the IT services delivery center PM in India successfully deliver a project, both firms should build upon that relationship to plan and manage more projects. In addition, both project managers should be accountable for ongoing productivity and financial measurements to encourage continuous return on investment improvement.

Unyielding pressure to deliver shareholder value, in combination with current globalization dynamics is forcing all corporations to innovate and seek new markets. Complex IT solutions facilitate virtually all growth strategies. However, corporate IT organizations are often unable to provide sufficient value -- capability and innovation, for the right cost. As a result, IT is inhibiting business model innovation, new market penetration and product introductions -- effectively top line growth. Partnering simply must be part of every corporation's IT strategy in order to secure value in the global IT marketplace. In order to develop effective partnering strategies, CIOs need to understand dynamics of the global IT marketplace and the strategies leading IT service firms are pursuing to create value for clients.