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## 2 IT Planning – Integrating IT Planning into Corporate Planning

IT governance forms the structural framework for effective IT management and thus also for implementing a value-oriented IT strategy. One key success factor is planning IT ‘properly’. But: IT as an ‘overhead department’ always has a budget that it must keep to. Balancing the necessary IT innovations laid down in the IT strategy with the funds available during the planning period is a characteristic of best practice IT planning.

What does the reality of this look like in companies? For many companies, *IT planning* means planning IT costs on monetary variables. Non-monetary aspects such as organizing the business or prioritizing development projects are not taken into consideration. Budget caps are typical for this type of process, set by many companies as an upper limit for the IT budget following excesses due to e-hype and the millennium, yet without really achieving lasting success.

On the contrary: Limiting the IT budget without reducing costs will simply lead to ageing IT systems in companies. Since IT operating costs increase by one or two percent annually in line with inflation, their percentage of the overall budget will get bigger year by year. The consequence being that there is less and less money left for innovation. It is much easier to save on new projects rather than reducing expenditure on operationally critical IT operations. If, however, existing IT systems are not continually adapted to changes in business requirements or new technical standards by constant reinvesting, then the IT will age so that business processes are no longer supported by state-of-the-art technology, and IT operating costs will increase on account of ageing tools.

Top-down planning based exclusively on monetary variables does not lead to the desired results, but to developments in the wrong direction: i.e. IT provides ever poorer support for the business, yet IT costs continue to increase. But is there an alternative that links IT cost reductions with the specific use of value enhancement potential for future strategic positioning? In our opinion, this question can be answered clearly with ‘yes’. It is the job of the CIO and the IT managers to make the best of the situation and to create the basis for effectively deploying funds at the IT planning stage. This requires a suitable set of instruments: Innovative methods and a best practice procedural framework create the scope for using IT to enhance value even if funds are limited.

An important basis for the workability of the planning methods is a differentiated, and functioning, cost and performance accounting system for IT. This provides the adequately differentiated information necessary for quantitative processes such as benchmarking.

## Using cost and performance accounting as a basis for planning

An effective market, product and customer-oriented cost and performance accounting system is an important condition for successful IT planning. Fundamental components are a cost category structure tailored to IT requirements and a cost center structure oriented towards the responsibilities in the demand and supply organization.

This requirement sounds particularly trivial in the case of cost category structures. Companies however often have situations where all the IT costs are booked using two or three cost categories, because the types of cost categories needed are not available in an accounts code that is primarily oriented to the needs of core business but not those of IT. These results in the actual costs that are entered not providing sufficient basis for analysis, making it difficult to draw conclusions about how funds are used. Cost-type accounting and cost center accounting are key elements of a functioning cost and performance accountingsystem.

For the kind of IT planning that we will be introducing in this chapter, we also need to structure cost units in a way that faithfully represents the IT services in line with market conditions and is tailored to customers needs. The planned costs are allocated to concrete IT services on the basis of standard IT operations performance categories (for example, the number of users assisted by help desks ) and appropriate service levels (e.g. 7 x 24-hour availability). At the latest, companies need this kind of information if they want to investigate the competitiveness of an internal IT service provider or are even thinking of outsourcing IT. If holding talks with external IT vendors, it is not the costs of a cost center that are important but products. A LAN workstation equipped with specific features comes at a fixed price per month.

Even if the IT service is an integral part of the products of a company, the company should be in a position to disclose the IT costs of its products so that it can take the customer perspective of the IT costs into account. For example, the core business of a company selling credit card transactions on the basis of technical processors can only be run on high-performance IT. If this company wishes to expand its business to new markets, for example in Eastern Europe, it will not be very successful if it cannot calculate the costs of its transactions – i.e. costs per credit card transaction – in marketable dimensions. Since IT costs make up a considerable block of the costs in this business, a cost-unit-based system of cost and performance accounting is essential – i.e. a system based on IT services.

A forward-looking cost and performance accounting system with cost category, cost center and cost unit elements also creates the basis for effective IT controlling. It is able to provide the records needed for IT planning and should work on the following principles:

- *Principle 1:* All the costs directly attributable to one product must be booked directly – cost categories could be outside services, direct material, etc.

- *Principle 2:* All the costs created at team/business unit level are directly attributed to organizational cost centers. Cost categories here could be personnel costs, workstation costs, vehicle pool costs, telecommunication costs, office space costs, etc.
- *Principle 3:* Personnel costs and overheads at team/business unit level are allocated to products/orders via internal cost rates.
- *Principle 4:* The remaining costs are allocated (depending on who caused them) for the use of the services by charging an all-inclusive standard price or levies.

For the IT planning methods introduced in the following chapter, a forward-looking cost and performance accounting system is highly desirable. The planning methods and techniques conceived of can be implemented all the better if the base system for cost and performance accounting performs well and the more smoothly it can be used in day-to-day operational business. For a number of methods – we have already mentioned benchmarking – elements such as cost unit accounting are absolutely crucial.

### Establishing procedural frameworks for best practice

A company-wide integrated IT planning process facilitates the systematic planning of IT budgets, the optimization of IT operations across the company and the prioritization of IT initiatives. For companies that are able to realize synergies across a number of business units, there are several additional processes that allow an aggregation of individual plans and a targeted analysis of synergies.

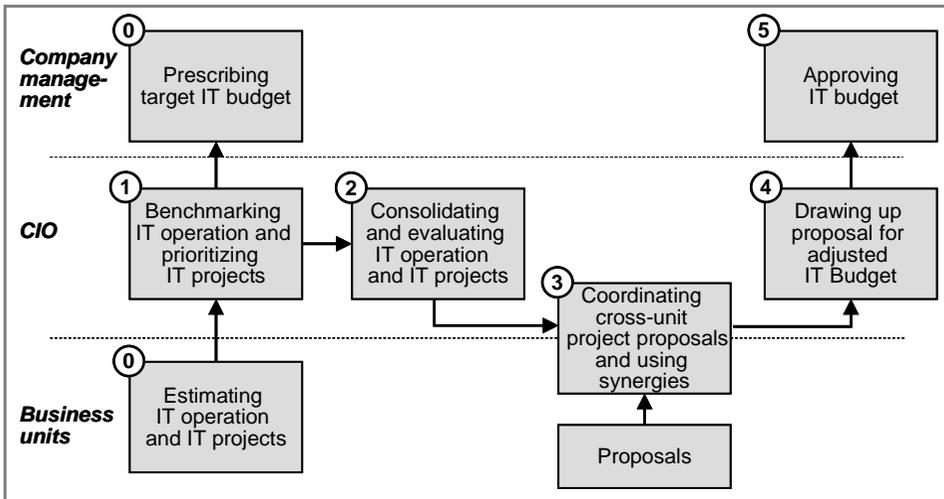


Figure 2.2: The integrated IT planning process

Although the procedural frameworks for best practices introduced here (figure 2.2) promise the most potential for large, complex companies with group-like structures, the planning processes and selected methods can also be used successfully for SMEs.

Before the actual planning of the future IT portfolio and the dimensioning of the IT budget takes place, the anticipated costs and the quality and scope of the IT operation and IT projects must be assessed at the business unit level (in figure 2.2: 0). This information flows into the IT budget proposal, which provides the basis for top management's IT budget decisions.

The provisional estimate is bound up with a high degree of uncertainty. When planning for the current operations, the IT controlling team can assist those responsible for IT in the business units in carrying out a realistic estimate of costs and performance by providing them with transparent cost and performance catalogues. But on account of the requirements that the business units have in terms of innovative IT solutions, a great deal can change between the planning and the implementation stages. It is precisely for this reason that close cooperation between those responsible for IT and the business units is key to the success of IT planning. Otherwise, IT would find itself in the unpleasant predicament of having to react 'suddenly' to changes in the market with IT that it could not finance out of the budget. Companies that have valid targets thanks to IT performance management do not have to fear imponderables such as this nearly as much (see Part B, Chapter 3, IT Performance Management).

With its targets for the IT budget, top management sets the IT planning process in motion in the business units (0). Based on the cost estimates for IT operation and IT projects, the business units plan the distribution of the IT budget in two stages:

- IT requirements and budget proposals from the business units are examined and assessed by a central IT management unit (for instance, the CIO). For this purpose, the IT operations are benchmarked and the IT applications and IT infrastructure projects are prioritized (1). The aim is to reduce costs in the area of IT operations and to identify the planned IT projects at business unit level.
- IT planning in the business units is then consolidated at management company level and assessed with the aim of achieving cost synergies throughout the company (2).

After the CIO has approved the IT budget, the outcome of the process for top management and the central controlling department is a plan for IT operation and subsequent IT projects that has been coordinated with all the business units and consulting management departments. Based on the consolidation and assessment of IT operation and projects, IT project proposals are developed, and company-wide IT projects for implementation decided on and prepared in readiness for decision-making (3). Following the decision by the business units and the CIO, a proposal for the adjusted budget is then drawn up (4) and approved at management company level by the top management (5).

Companies that carry out the whole procedure using powerful and comprehensive methods almost certainly are employing the best practice method. But improvements can also be achieved by using a shorter version of the planning process with each of the steps tailored to the special situations in the company in question. The following section will highlight a few selected steps of this framework and discuss them in greater detail.

## Planning IT operation and IT projects

In many companies, the planning for IT operation and IT projects is oriented towards two guiding principles:

### Planning from the bottom up

From the bottom up, the anticipated total output of IT during the planning period is estimated. On the operations side for example, it is important to assess how many PCs or specific network forms are needed and which data processing center services or other services must be provided, run and maintained by the IT department to support the business units. When planning the projects it is a good idea to use the IT roadmap as a base (see Part A, Chapter 1, IT Strategy), in which the innovation and project proposals for the planning period have been established. On this basis, the costs and investments for the following period are estimated based on previous experiences and existing offers or pricing information.

The necessity of carrying out IT planning not only at the cost category and cost center level, but also on the cost unit or IT services level has already been explained in depth in the previous section on cost and performance accounting. A key instrument for a systematic, performance-oriented planning is a company-wide product and service catalogue. Two different components need to be taken into consideration in the field of IT:

- The hardware and software catalogue in the frontend field (e.g. workstation systems, applications, etc.),
- The IT services catalogue, which defines and presents all the important IT services in all the IT core functions (user support, server and application services, consulting and development). The content, quality and price of these services are usually stipulated in the Service Level Agreements (SLAs).

Specifying the hardware and software catalogue is not so much of a problem because the technology products used usually simultaneously represent the content. Drawing up the IT services catalogue is a lot harder.

Here it is important to ensure that the definitions of services are consistent and clearly distinct from one another. The definitions in a service catalogue are often very technical and are based on historical technical standards and definitions. For example, there is a difference whether in the case of help desks the costs are allocated according to the number of calls made or the number of users helped. Both aggregates offer a valid basis for internal or external comparisons, but the data for the former may not be available from the business units if the number of calls were not monitored there. It is best to take a pragmatic approach here and select the data that is available in the majority of business units.

**Tips for bottom-up planning:**

- *Start in the business units:* In companies with group-like structures, the planning process starts in the operative business units, since planning the content of new projects and business services requires a certain proximity to the operative business.
- *Use templates:* To ensure aggregatability and comparability of results from each of the various subsidiaries, it is important to obtain similar kinds of information from across the group. Here, it is a good idea to use standard templates.

A possible (rough) means of structuring benchmarkable services has been listed in the following table:

*Table 1.1: Rough structural plan for IT applications and services (example)*

Workstation Systems	Applications Services	Special Services
Standard workstation services (e.g. hardware/software, LAN, help desks, local services) Optional workstation services (e.g. maintenance of special equipment such as organizers) Special features of service level agreements (SLAs), e.g. VIP support	Operating applications (including administration and support) Hosting/housing applications Purchasing and distributing hard- and software	Network links Remote Service Access WAN Internet services Content management Domain management Information and security services Directory services Public key infrastructure EDI Electronic payment

As part of IT planning, the volumes expected for the planning period (number of users, number of servers, number of systems etc.), the planned unit costs and the overall costs as a result must be assigned for each of these service categories. A comparison of the unit costs per service – for example the workstation costs per user and month at defined service levels – provides the basis for benchmarking the IT operating costs at a later

date. The costs broken down into services add up to make the IT costs (broken down in the financial ratios into cost categories).

Just like the IT operating costs, up-and-coming projects are also planned from the bottom up. Here too, it is a good idea to structure the costs according to the information needed at a later date for the planning process. Unlike with IT services, it is the structured descriptions of the project focus that are particularly in the foreground, aside from quantitative components in the form of quantity structures – for example, the number of users affected by the project – or costs. This kind of information serves to identify cost reduction potential for further IT planning, for example, by investigating possible initiatives for using synergies.

As with the IT operating costs, the IT costs – planned in the financial ratios according to cost categories – result from aggregating the projects. Projects that are not fully planned at the time of the budget plan have to be listed in the projects as planned items, since they have to be taken into account later when the prioritization for reaching budget targets occurs at project level.

## Planning from the top down

In parallel to the bottom-up method, the budget target for IT is stipulated by top management from the top down for each of the business units. The responsibility for how this is then filtered on down through the business units is decentralized. There are a number of ways in which top management can fix the budget. The three most important approaches are briefly outlined in the following section:

- *Strategic approach:* The IT budget is derived from earlier strategic planning. The conditions for this are that:
  - the timing of strategic planning is synchronized with the annual budget plan,
  - it is detailed enough to use as a base for IT target budgets,
  - IT provides for a counter check between strategic planning and current (cost) developments (e.g. actual costs of the previous year).

In general, this method of deriving the target budget from strategic planning is not practicable because the required degree of detail is often not available.

- *Operative approach:* The target budgets are derived from existing, medium-term plans from the business units that cover several years at once. Since these plans often contain bottom-up information from the previous year, they are usually sufficiently well founded and often include the latest planning information. This approach is problematic in that, in the final analysis, the planning from the previous year is projected forward and continued and a controlling effect is only partially achieved.

- *Analytical approach:* The third approach is more of a backward-looking approach. The starting point is the IT budgets from the business units of the previous years. On the basis of the budget cuts prescribed overall for IT throughout the company, the cost cutting goals are passed on to the business units. Depending on their performance – measured for example by IT costs as a percentage of sales or process costs – and the comparison within the company and best practice industry ratios, poorly performing business units have to make more cuts than good performers.

In practice, we recommend a combined approach – a mixture of strategic far-sightedness, sound and up-to-the-minute information and an appreciation of economic necessities and constraints. For example, the strategic planning outcomes could serve as a guiding principle for IT planning, according to which concrete figures are established as part of the operative approach and finally analytically verified.

The next step is then comparing the bottom-up and top-down IT costs with one another – the former costs being evaluated and the latter being prescribed from the top downwards: If the bottom-up IT costs are less than the top-down ones, the budgeted value can be established as the basis for further concretization. Further planning is more difficult if the top-down IT budget is less than the bottom-up IT costs, however experience shows that this tends to be the more likely alternative. The following section shows how companies can find an effective and lasting way out of this dilemma.

## Identifying cost reduction potential for IT operation and IT projects

If there is less money available for IT than is really needed, then there are a number of possibilities for adapting IT planning to suit the funds available:

- *Alternative number one: To reduce the estimated costs for IT operation items.* Investigations can be carried out into whether the planned services such as an SAP application could be ‘produced’ or purchased more cheaply (see Part C, Chapter 1, IT Optimization).
- *Alternative number two: To reduce the estimated costs for IT project items.* Companies with group-like structures can examine whether the investment projects in the business units overlap and whether or not certain projects can be carried out jointly. The project costs can be reduced overall through learning curve effects, using empirical values or template effects, e.g. where most of the work on developing a new product can be carried out in the same way by several business units.
- *Alternative number three: Eliminating certain items* – i.e. reducing the scope of IT services – a move which requires projects in particular to be prioritized.

The impact of each of these alternatives is different. The first alternatives lay the foundation for more medium-term improvements. However, in practice it is unusual that companies are able to change their IT suppliers at short notice. Therefore, the impact on the budget is irrelevant for the planning period. The second alternative is more short-term. Part of the project costs that are planned in parallel are eliminated because of the joint collaboration – and this occurs during the planning period! The same is true for the third alternative: If IT projects fall through once the projects have been prioritized; this has a direct impact on the budget.

### Reducing IT operating costs through benchmarking

High ‘unavoidable’ IT operating costs – as a result of frontends, networks, data processing centers and other elements – do not have to be accepted as given. IT operating services are commodities and do not usually add value directly to the company. They provide the conditions for innovative services in applications. And they also have to be ‘available’ – at a stipulated quality and reasonable price. As they are to a large degree homogenous, their level of quality and costs are a good basis for comparison, and the service provider is interchangeable due as a rule to a low level of complexity and a lack of relevance to strategy. IT operating services thus offer an ideal starting point for reducing costs. In larger companies with group-like structures, it is also possible to share the use of a cost-intensive IT infrastructure throughout the company, for example, by consolidating data processing centers, integrating Wide-Area Networks (WAN) or setting up a common helpdesk for all group-wide IT applications. The more operating costs are saved, the more scope is opened for investment projects!

The amount of money that can be saved is considerable. By introducing a group-wide CRM platform, one telecoms group was able to reduce annual IT operating costs by some 30 percent from 7 million Euros to just 5 million Euros, whilst cutting IT project costs by almost 25 percent from around 63 million Euros to under 50 million Euros.

In this chapter, we have often pointed out how important it is to define services in line with market conditions and that the additional amount of time and effect to achieve this is justified. Now, we will highlight the benefits of this approach: IT strengths and weaknesses can only be analyzed and improvements tackled, if IT costs and services are recorded in a structured manner in line with market conditions. Benchmarking IT operations highlights weaknesses in how data processing centers are run, desktop systems are maintained or licenses are purchased. There are three different processes for doing this.

- *Historical benchmarking:* Within the company – in the case of decentral IT within the business units – historical data from the past is compared and validated by carrying out the relevant change and variance analyses and adjusted if need be. Any leaps

in costs must be analyzed. They are often the first signs of misdevelopments and a basis for improvement measures.

- *External benchmarking:* Comparing variables from other companies gives managers a differentiated view of what the competitive situation in their own company looks like – clearly highlighting strengths and weaknesses. The more differentiated the cost calculations are carried out, the more precise the findings of the analyses will be. Improvement measures can be started in two ways: On the one hand, internal improvement measures can be pinpointed for the identified weaknesses. On the other hand, some categories do not have the quantities for achieving greater efficiency within their own company and therefore ‘stand alone’ optimization is not an option. For these services, (selective) outsourcing for improving cost positions can be considered.

#### **Tips for reducing IT operating costs:**

- *Considering synergies in the core business:* In larger companies, standard application systems, such as group-wide inventory management and bundling purchasing volumes, make it possible to coordinate processing customers company-wide and increasing customer value through cross-selling potential.
- *Exchanging best practices:* By discussing issues together, the business units can learn from each other's experiences and thus create the right conditions for transferring the best solution in the company to those business units still in difficulty.

- *Internal benchmarking:* This particular form of benchmarking presents itself in larger companies with group-structures and several internal and/or external IT areas. Here service quality and costs within the same company are compared with one another, provided the same service catalogue and standard templates for recording costs and quality are used. This process allows us to select the best-in-class business unit and suggest improvements for the others.

Benchmarking results in ideas for improving the optimization of IT operations. It is vital for further procedure to record these ideas along with the anticipated saving potential and the timeframe in which the saving (budget) will become relevant. In this manner, we can make a precise estimate of when the IT budget will be relieved and scope is also created for IT innovation!

### **Reducing process costs by using synergies**

IT costs that are planned from the bottom up do not have to be accepted as given either. In big companies in particular, the launch costs for infrastructure or application projects

can be rapidly reduced through joint initiatives for using synergies. The advantages of this kind of joint approach fall into several categories:

- Resources are optimized by maximizing the deployment of internal and external resources throughout the project
- Faster introduction of IT solutions in several business units by using learning curves and empirical values
- Reducing operating costs with a project for jointly using a standardized infrastructure for operation
- Reducing purchasing costs with a project for bundling the purchase of licenses, IT vendors, implementation resources and other components.

Depending on the size of the project, here too considerable costs can be saved. In one

**Tips for identifying meaningful projects group-wide:**

- *Only consider important projects:* To concentrate on projects with a high potential for synergies, it is important to only consider those projects that exceed a specific investment volume or whose cost-cutting potential justifies the more expensive company-wide coordination.
- *Test feasibility:* Before further analyses are carried out, it is vital to ensure that there are no technological or organizational barriers in the way of group-wide implementation.

concrete case, the introduction of a customer accounting software with a template-based standard development and subsequent roll-out to five of the subsidiaries in a power utility group cut implementation costs per business unit by 23 percent.

To identify synergies in the IT projects, the IT planning in the business units is consolidated throughout the companies. In a multi-tier process, the synergy potential then detailed and transposed into project proposals. They serve as the basis for decision-making for initiatives throughout the company. The anticipated savings are anchored immediately in the IT budget for the following years. The first challenge lies in identifying similar projects.

Classifying the project makes it possible to identify projects of a similar size within the portfolio. Application projects can be classified according to the following criteria:

- *Software product:* SAP R/3, SAP APO, i2 etc.
- *Project phase:* Definition, development, launch or roll-out
- *Time frame:* Duration of developments in three-month periods etc.
- *Business processes supported:* Logistics, production, sales etc.

- *Area of application:* Customer Relationship Management, ERP, Supply Chain Management, Data Warehouse, Sales Force Automation (SFA), finance and controlling, B2B marketplace, etc.

Projects with a similar classification are fundamentally suitable for joint projects. However, one should take into account that it is very difficult to find generally valid criteria for weighting similarities. If the ‘similarity check’ is positive, checks should be made as to whether joint action really makes economic sense in this case. To start with, a company-wide initiative means that the project will be more complex, meaning that the risks are higher, and more time and effort is required to coordinate it. These disadvantages must be more than compensated for by the synergies achievable in this case.

Synergies can be achieved in several categories:

- *Project synergies* through the smaller number overall of internal and external development resources, joint purchasing of software licenses or group-wide use of templates
- *Operating synergies* on project completion through joint use of hardware and communication platforms, optimized hard- and software maintenance or a common helpdesk – all these things are only possible on account of a coordinate project approach
- *Business synergies* on project completion by establishing standardized business process and company-wide transparency on costs and services.

Irrespective of the profitability aspect, joint innovation can also be a good idea if the savings that are anticipated are insufficient. This is especially the case if strategic relevance is highly significant. The board of a German manufacturing group consisting of several subsidiaries in a number of countries all active in the same product segment was also faced with such a decision. Despite higher IT implementation costs, the board decided not only to define standardized processes for all subsidiaries but also to realize a joint project in the systems. The strategic advantages of this approach were considered to be higher than the cost disadvantage.

For assessing strategic relevance, there are also a number of possible criteria:

- *Opening strategic options* through realizing flexible IT structures, for example fusions and take-overs or disinvestments, for outsourcing (IT, business processes etc.) or new business models such as joint ventures.
- *Improving services* through better customer services, better internal service or greater transparency, for example via data warehouse or management information systems.
- *Supporting business process* above and beyond business unit boundaries, e.g. by using cross-selling processes or a standardized CRM system.

- *Implementing a corporate agenda*, in particular to ensure tighter management of decentral business units.

Companies organizing joint IT projects that go beyond business unit boundaries must keep one thing in sight: The benefit for the business units. The additional complexity is only justified if the business case is advantageous for all those involved. An attractive business case is likely to win the support of the IT managers in the business units. Experience shows that synergies projects cannot be pushed through without their help. This is why the business case must stipulate how to deal with cost-cutting exercises: Distributing these amongst the business units involved could represent an incentive to work together. Integrating the management of the business units strongly into the decision-making process for coordinated initiatives also helps to gain broad acceptance for the idea. Who is to take on the management role in the project and how the resources for the project are to be allocated are all points that need clarifying.

The synergies analysis results in those projects in which cooperation between the various business units seems feasible and makes economic or strategic sense. Like the approach for benchmarking operating costs, here too, the anticipated potential savings and the timeframe within which the cost cutting measure (budget) will become relevant must be decided upon. Unlike the operating costs however, the calculated cost-cutting measures usually impact the budget during the same planning period – as a result of the coordination the funds are not made use of. Furthermore, projects tackled by several companies at once are often carried out in stages, i.e. joint technical concept, joint template development and sequential implementation. As a result funds are often made ‘to go a bit further’. Both effects relieve the IT budget and create scope for more IT innovation.

### Prioritizing planned projects

The methods described above can reduce planned IT costs in the short, medium or long-term. However it is possible, and in practice even likely, that the bottom-up IT costs planned by the business units exceed the IT budget allocated top-down by the board. The only thing to do in this case is to cross out certain service items from the list or to postpone them. These items tend to be projects. IT operation can be optimized, but it is vital to the core of business operations, even if certain parts of IT operation, i.e. maintenance for application systems that are being phased out, can be cut back or even cancelled altogether. As this tends to be the exception to the rule, the problem is more likely to be shelving the ‘right’ projects. The aim must always be to gain maximum benefit for the company from the IT deployed, despite limited means.

This calls for projects to be prioritized, by systematically and purposefully assessing the planned project and creating a sound basis for decision-making. The systems for prioritizing IT infrastructure and IT application projects are virtually identical and based on

the project data collected during the planning process. The key factors in prioritization are 'benefit' and the 'ease of implementation'. How benefit is defined must be decided on individually in each case. The criteria 'financial benefit', 'strategic relevance' and 'technological advantages' are tried and tested. For assessing the ease of implementation, the risk and complexity of the projects need to be evaluated.

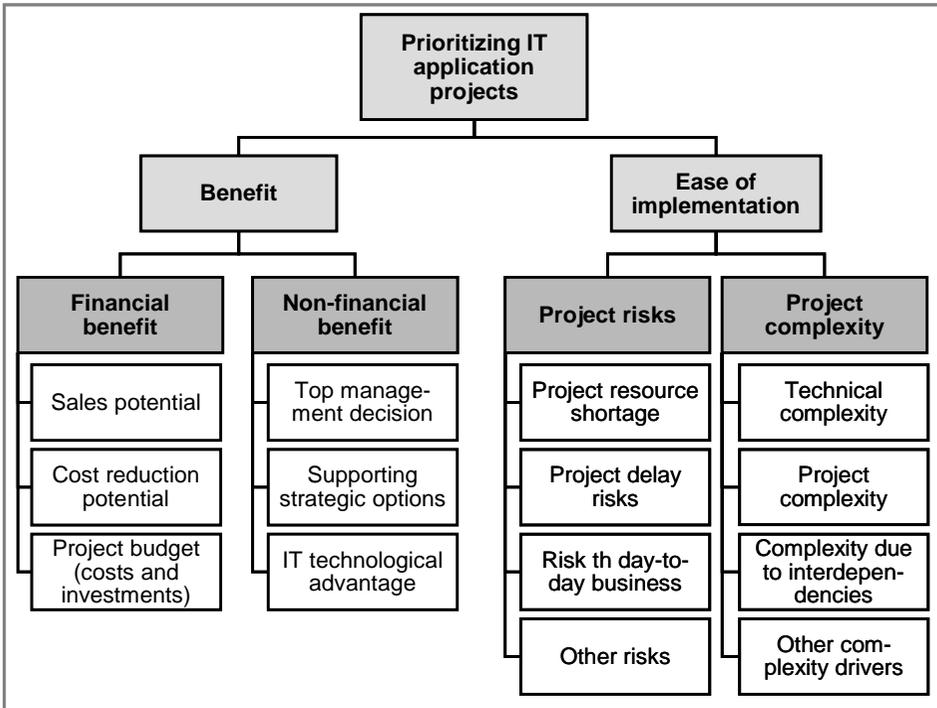


Figure 2.3: Prioritization tree for IT application projects (example)

It is a good idea for companies to subdivide the criteria of the prioritization tree even further (figure 2.3), to make the dimensions more effective and evaluations as concise as possible. Each of the individual criteria are prioritized and given a high, medium or low value in the multi-dimensional portfolio (figure 2.4). Multi-dimensional in this case means that the information from a number of levels is integrated in the portfolio:

- The position of the projects (circles) represents the degree of benefit and difficulty of implementation
- The size of the circles indicates the volumes budgeted for each project
- The color represents the project status from launch (black) to definition (white)

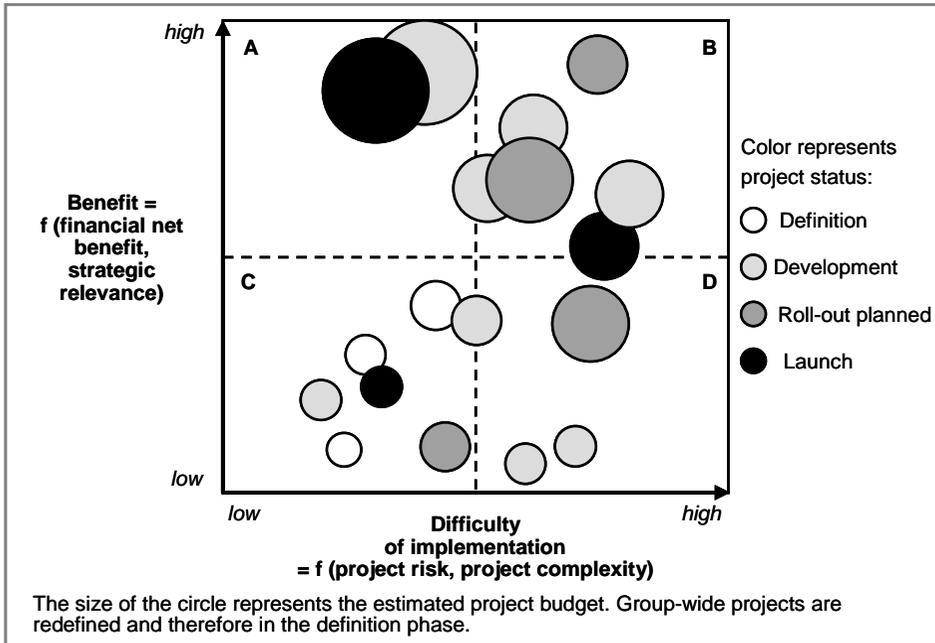


Figure 2.4: IT application portfolio (example)

The position of a project in one of the four quadrants of the portfolio indicates the options for action:

- *Quadrant A:* High-priority projects that are relatively easy to implement and whose implementation is important for the success of the company. The budget should be approved.
- *Quadrant B:* Projects that have a high benefit for the business but are difficult to implement. Each individual case needs to be carefully considered before the budget is approved.
- *Quadrant C:* Projects that are easy to implement but are not very promising in terms of the benefit they will provide for the company should be implemented selectively – each individual case needs to be carefully considered before the budget is approved.
- *Quadrant D:* Projects with the lowest priority as they are complex and promise to bring little benefit to the company. The projects should be postponed.

Aside from the division into quadrants A, B, C and D, the project phases and project budgets provide information on whether it is a good idea to implement a project, stop a project or cutback funding. Those projects that promise huge benefits and are also relatively advanced in the implementation phase tend to be given a high priority for implan-

tation (quadrant A). On the other hand, projects that are of little benefit and are still at the planning stage tend to be shelved (quadrant C). Projects with little benefit (quadrants D and C) that are difficult to introduce (quadrants D and B) and are still in the middle of the definition phase with a huge envisaged budget will be the first ones to be frozen.

The prioritization sequence described above is clearly not an automatic process. Rather it is intended to create a transparency that allows IT managers to discuss – on the basis of meaningful parameters documented in later project controlling documents – IT budgets with the business units and their use in projects.

If successfully introduced, a group-wide IT planning process can be a springboard to considerable added value from the central IT unit. In one real-life case, IT planning was able to save the group costs to the tune of multi-digit millions

#### **Tips for prioritizing planned IT projects:**

- *Prioritize IT infrastructure projects over IT applications projects:* IT infrastructure projects usually arise as a result of benchmarking IT operation – for example, because new software applications are no longer supported by older hardware. For this reason, it is important to prioritize the IT infrastructure projects first and then the IT applications projects afterwards.
- *Give projects that ensure day-to-day operations the highest priority.* Not least in order to minimize risks: A company can manage well enough for a year without new software for booking expenses, but the same company will be in serious danger if the server is down for a number of days and no invoices can be sent out.

#### **Designing a group-wide IT planning process for an international service provider**

The IT of a worldwide service provider was operating in an environment that made it extremely difficult to exploit group-wide synergies:

- Responsibility for the IT budget had been decentralized among the business units, although IT operation for some of the business units had been outsourced by group headquarters to an external IT service provider.
- Some of the development activities of the business units had been bundled into their own IT subsidiary.
- Top management had set an upper budget limit for IT costs group-wide. It was the task of central IT to make sure that this upper limit was observed during the IT planning process.

An analysis of the planning processes made it clear very quickly that the budget could only be kept to by consistently optimizing IT operational services, systemati-

cally prioritizing all new projects and by achieving considerable synergies group-wide.

When introducing a new procedure for IT planning, which was aligned with the best practices outlined above, the role of central IT in identifying and developing potential synergies was strongly underlined. To gain the acceptance of each of the business units for the new procedure, they were involved in developing the concept from the beginning. The consensus-oriented process provided the business units enough (financial) incentives to become involved in group-wide issues. On the one hand, the IT managers in the business units had their own board especially set up for the purpose, where they could approve joint initiatives. In addition, a step-by-step implementation approach was selected for introducing the new system, which increases the detail of the planning every year and also provides appropriate methods and instruments. In spite of this, rapid pilot projects showing initial findings, for example a series of workshops on discovering synergies, can increase the acceptance of new systems on all levels. A further success factor was basing the introduction of new IT planning systems on existing processes and systems, thus keeping the amount of time and effort for the business units overall as manageable as possible.

#### **Checklist: Does the IT planning system of your company enhance value through IT?**

	<b>Yes</b>
■ Does your company have a documented and established IT planning process and is IT planning aligned with corporate planning?	<input type="checkbox"/>
■ Does the IT planning process combine planning content and monetary variables?	<input type="checkbox"/>
■ Has the smooth cooperation between the IT department and business units and centralized and decentralized units been ensured for your IT planning system?	<input type="checkbox"/>
■ Does your IT planning include methods that proactively analyze cost reductions for IT operations and IT projects?	<input type="checkbox"/>
■ Does your IT planning include systematic methods for prioritizing the allocation of scarce IT resources 'fairly' and appropriately?	<input type="checkbox"/>
■ Does your company have a cost and performance accounting system, which alongside IT-specific cost-type accounting also includes a cost center hierarchy aligned to the structure of demand and supply organization? Are IT services planned with cost unit accounting in mind and settled in terms of actual costs?	<input type="checkbox"/>