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# Managing the Value of an IT Application Portfolio

*Moving Beyond Traditional Approaches Improves  
Customer Decision-Making and Reduces Risk*

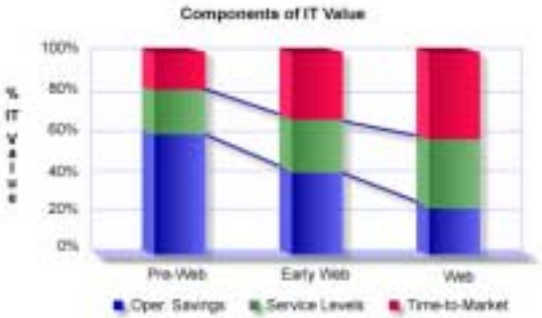
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A White Paper by *ITCentrix*

## **Opinion**

As the economy changes, new ways to evaluate IT investments are needed. Traditional methodologies focused solely on cost, or those that merely take snapshots in time, are inadequate in today's business climate. Understanding the value of an application portfolio is the first step to delivering increased business value through IT. New approaches are helping Global 2000 and emerging organizations rethink IT investments, reduce risk and dramatically improve the business impact of IT spending.

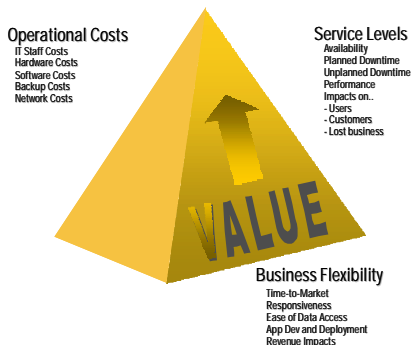
**Figure 1 – IT Value is Changing...**



*Once viewed as a necessary cost item targeted for internal applications, IT is now seen as a way to increase customer service levels and accelerate time-to-market.*

*Rarely do organizations attempt to proactively manage the value of their applications over time.*

**Figure 2 – What is IT Value?**



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## Executive Summary

What is IT value? Many organizations struggle for ways to define, let alone measure IT value. Nonetheless, it is increasingly clear that the perception of IT value is changing (see Figure 1). Once viewed as a necessary cost item targeted for internal applications, technology initiatives are now commonly seen as a way to increase customer service levels and accelerate time-to-market.

TechRepublic recently reported that according to The Gartner Group, forty percent of all IT projects fail to meet business objectives, costing companies millions of dollars annually. These figures are astounding considering nearly one trillion dollars is spent worldwide each year on IT hardware, software and services.

Traditional measurements of IT value include methods such as Total Cost of Ownership (TCO) Return on Investment (ROI) measurements and Economic Value Add (EVA). These approaches have played a major role in helping customers avoid costs and make more sound IT investment decisions. Nonetheless, as the industry changes, ways to measure IT return must also evolve.

While sometimes, traditional measurement approaches are adapted to account for value beyond just TCO reductions, the challenge has been to apply these methods in an ongoing fashion, as opposed to a point in time. Typically, organizations assess a business case prior to deployment in a “snapshot” manner and move on to the next project. Rarely do organizations attempt to proactively manage the value of their applications over time.

The bottom line is to deliver business value; organizations must take a 360-degree view of their business, consider the full picture and implement strategies to proactively deliver business value in an ongoing fashion.

This paper presents a methodology to quantify the business value of IT applications beyond straight TCO. The approach measures value in three areas including: 1) Operational cost savings (TCO); 2) Service level improvements and 3) Business flexibility enhancements. The method can be applied in an ongoing manner, rather than a single point in time.

By applying such a methodology to IT planning, companies are maximizing the business impact of technology and exposing the tradeoffs of different IT initiatives in a business context.

## Introduction and Background

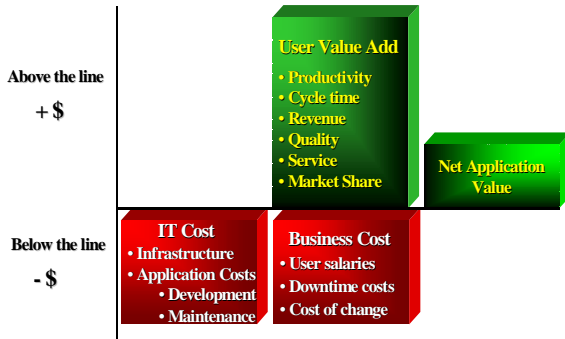
Since its inception, ITCentrix has endeavored to find ways to directly link IT investments with business results. An initial challenge in this regard was defining IT value and creating a methodology to measure (in an ongoing fashion) the impact of factors beyond TCO, namely

service level improvements and accelerated time-to-market (see Figure 2).

The framework shown in Figure 2 was evolved into a patent-pending methodology that considers the entire cost and value picture in a way that can be continuously updated (see Figure 3).

The concept of application value can be a detailed discussion, but for the purposes of this paper, consider the following points:

**Figure 3 – A Total View of Value**



*Users of applications drive application value, not the size of the IT budget.*

- Users of applications drive application value, not the size of the IT budget.
- Their use of applications contributes to productivity improvements, business cycle benefits, direct revenue, improved quality and increased customer satisfaction;
- IT budget is only one component of IT investment. User time spent accessing applications, the cost of unplanned downtime and the business cost of making changes to applications all must be considered as part of the IT investment picture;

The Application Value Methodology is used to quantify the above and below the line factors shown in Figure 3. Customers derive Net Value by taking the business benefits (above the line) and subtracting both the IT and business costs (below the line). Net Application Value measures the contribution of IT applications to business results and, once established, can be used as the basis to measure benefits beyond TCO and manage value in an ongoing fashion.

### Proactively Managing Application Value

Once established, Application Value can be used to predict the impact that a change in IT will have on the business. Using a consistent approach and method of establishing Net Application Value is critical to this process to capture all of the above and below the line factors. Beyond traditional TCO measurements, the Application Value Methodology has been used to assess opportunities such as the following:

- How will changes in infrastructure impact business value?
- How will downtime costs be impacted if certain changes are made to my systems?
- What is the business impact of moving my applications to a new architecture?
- How will a new system (e.g. CRM) affect Application Value?
- What will be the effect on the value of my Application Portfolio?

These and other “what ifs” have been successfully modeled at leading Global 2000 organizations before the expenditure of major resources on projects.

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*...being able to measure and track the business value of applications is the first step to managing IT investments.*

## **Executive Actions and Conclusions**

Increasingly, the lines between applications and business operations are blurring; indeed, a company's applications are their businesses. As a result, being able to measure and track the business value of applications is the first step to managing IT investments. Once established, this value can be used to pinpoint initiatives that will have the greatest bottom line impacts on business results.

Identifying and managing Application Value can help optimize decisions, accelerate revenue recognition and dramatically reduce risks.

The following points can serve as guidelines when considering the Application Value Method:

- Traditional methods of evaluating IT value, often miss the full business picture or are not designed to be used in an ongoing fashion;
- Frequently, IT benefits are the focus of IT decisions and business benefits are ignored, minimized or deemed too difficult to quantify;
- Sometimes, business factors outweigh IT benefits by orders of magnitude, which emphasizes the need for assessing the full picture.

The value of taking a rigorous approach such as the ITCentrix Application Value Methodology is that a common metric can be set to enable enhanced business communication both with IT and between IT and the Lines of Business. This leads to better decision-making, clear objective setting, and brings IT organizations closer to maximizing the business value of IT.