



IT as a Revenue Generator

Sell your software and services? What are they thinking???

My Opinion, by Omer Perra

Some in the trade press have recently called for IT organizations to sell their internally generated systems to outside companies as a means of recouping investment and helping IT pay for itself. This is clearly the thinking of those who view IT as a cost center and are looking for ways to reduce that “cost.” They are missing the point. An organization’s applications, including process flow, are valuable company assets not to be sold to the highest bidder. Moreover, IT departments are not structured to be software vendors. Bottom line: IT already contributes value; it’s just not measured and communicated correctly.

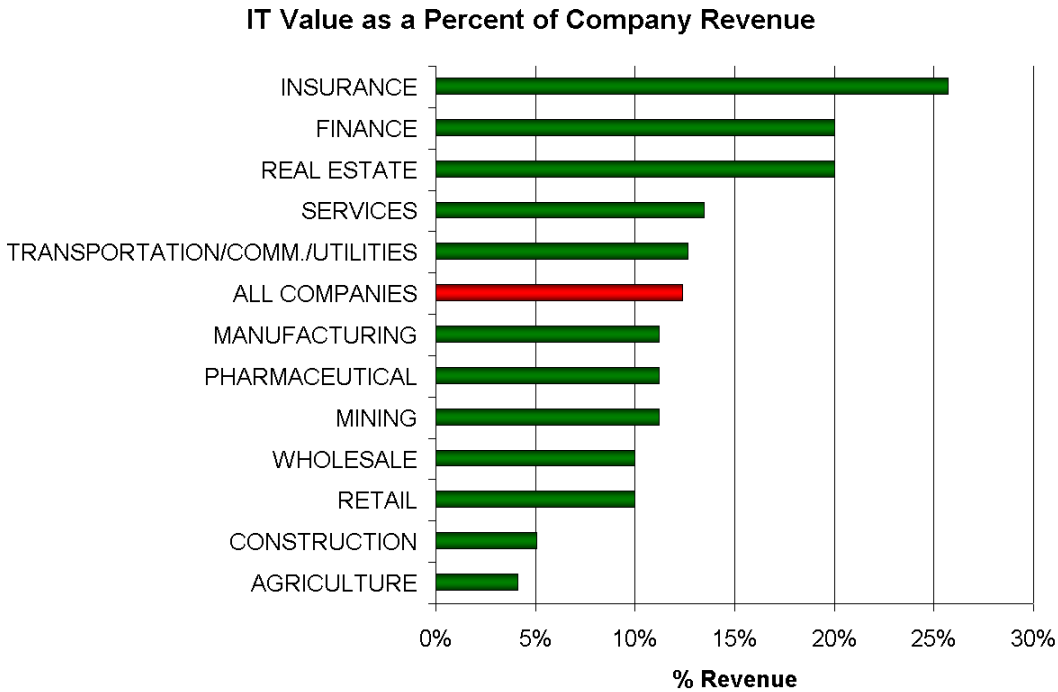
Homegrown applications are developed internally for two main reasons: 1) The organization is looking for a competitive advantage with capabilities that differentiate it in the marketplace; and 2) The code is either not available or affordable in the marketplace and the only way to meet specified business requirements is to develop a system in-house. Regardless of the reason, internally generated applications should provide measurable competitive advantage and value. If so, there is no way the business would support selling IT services to potential competitors.

Being a software vendor is also inherently different from the skills necessary to be a world class IT organization. Successfully developing and marketing software, complete with documentation, user training, and customer support services will require additional investments.

Rather than compete with IBM Global Services and EDS, limited development resources should be directed to add functions that further extend competitive advantage and contribute value to the core business. Selling software and services will undoubtedly be a distraction for the IT organization and hurt overall business performance. When posed with the question: Do I support the sale of software or a mission critical project, what will be the answer? In a shortsighted view, the answer will be to support the revenue

stream. The right answer is to support the business users and add maximum value for the company.

The source of the problem is that IT is traditionally measured through cost metrics rather than business value terms. If the business understands IT's true value contribution, there would not be pressure to generate external revenue by selling its internally generated systems. The following table delineates the real value IT typically contributes and clearly illustrates that IT's contribution far outdistances any revenue it could generate through external sales.



Source: ITCentrix ValueBase™ 2002

The Purpose of IT is to generate value and improve a company's competitive position in the market place. Focusing on those activities that drive business value is the optimal method for IT to contribute to the organization. So, measure the value IT contributes to the business and use those metrics to ensure resources are aligned with business objectives. The end result will be enhanced communication with the business and optimized IT value.

Omer Perra is responsible for supporting ITCentrix CIO clients. As a former CIO, he has spent more than 30 years generating business value through information technology.