DITY™ Weekly Newsletter

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The workable, practical guide to Do IT Yourself Vol. 4.05 • January 29, 2008

Process? Process! We Don't Need No Stinkin' IT Process!

By Hank Marquis

Lack of IT process costs the average Fortune 500 company the equivalent of $261,000,000 a year. No wonder more than half of all CEO's question the value of their IT organizations.

As a management consultant helping my clients attain competitive advantage from their IT investments, I hear it all the time. It goes something like this: "We don't need process, we're IT pro's, we know what to do."

When I hear this attitude I know I am working with an individual and a company statistically more likely to fail than to succeed. Don't misunderstand me, technology obviously has its place, but using technology correctly is simply more important.

In this article I am going to show how the lack of IT process is perhaps the single greatest impediment to business success of all time. Then I am also going to show you what you can do about it, because your IT investments can still deliver competitive advantage if managed correctly.

The High Cost of Common IT Process Failures

Every major study on the topic shows that about 70% of all IT failures are a direct result of an erstwhile IT worker doing something incorrectly. Put another way lack of IT process control is the reason for 7 out of 10 calls to every Help and Service Desk. The cost of "process-less" IT on this most basic of IT activities is astounding. The average IT user calls for support 1.25 times a month. 10,000 users make 12,500 calls a month at a cost of around $25 - or $3,750,000 a year. Of this, $2,625,000 is self-inflicted. Cost to business: 70% of all outages; millions in waste; lost competitive advantage. Your cost ________ users x _____ $/call = $___________________ (lost).

Shelf-ware is the hardware and software bought that either never got installed or (more likely) didn't do what was expected. Something like 25% of every dollar IT spends on hardware and software winds up as shelf-ware almost immediately after its purchase. What doesn't go immediately to shelf-ware usually winds up on the shelf within 36 months, which is the average technology life span in IT. Few seem to notice that most accounting rules depreciate infrastructure over 5 or 7 years. This shouldn't be surprising since some 67% of IT organizations don't even track their software assets at all! So, what happens to shelf-ware? As long as it's on the books, it an ever growing negative balance that constricts IT's ability to innovate and acquire new technology that could make a difference! Cost to business: 25% of IT hardware and software costs; lack of IT innovation; loss of competitive advantage. Your cost ___________ hardware and software budget x .25 = $___________________ (lost)

Perhaps the most waste in IT comes from IT project failure, the dirty little secret that virtually no one in IT seems to know about, but every IT user and customer lives. 70% of IT projects fail at a cost of $55 billion annually. That's about 22% of the average total IT budget wasted. But wait, there's more! 43% of IT projects that don't fail outright overrun budget to the tune of about $17 billion in additional IT spending. That's $72 billion in lost and excess costs. Just 20% of all IT projects finish on time, on budget and with the features promised. Abysmal failure is the phrase that comes to mind. Is there any question now why IT is universally despised by users and customers? Blame is pointless and counterproductive, but statistics show that you can double your chances of IT project success by simply using project management tools and techniques in the right way. Cost to business: 22% of total IT spend; delays, quality issues; loss of competitive advantage. Your cost ___________ project budget x .80 = $___________________ (lost)

So What

"So what." says the process-phobe. "The average IT budget is less than $50,000,000. Assuming 35% of IT spend is wasted due to lack of process the net loss is an average of $17,500,000 per year. It's just not that big a deal, we make hundreds of millions or billions."

IT process failures produce huge numbers, which is unfortunate. Not only because of the sheer cost to these poor organizations, but also because these big values are hard to visualize and as such easy to ignore as "someone else's problems." Let me help: $0.22 of every $1.00 you invest in IT goes to canceled or challenged projects. When you role in the shelf-ware costs and self-inflicted outages you are nearing 35% of IT budget. Think about that. Your cost ___________ IT budget x .35 = $___________________ (lost)

Worse than IT losing $0.35 of every IT dollar you spend, consider that this waste actively funds counterproductive activities and inefficiencies. The true cost of this inadvertently funded counter-productivity extends well past IT and into the business. This lack of understanding by IT managers and staff seems to me to be the very basis for business IT misalignment and what separates market leaders from market losers. Here's why: the average company has a 6.7% net profit margin. This means that for every dollar spent, the company makes just $0.067 - that's just under 7 cents - in profit.

Ask yourself how many dollars you have to earn to net $17,500,000 in profit (at 6.7% profit margin). Numbers are sometimes hard to grasp, so lets talk about something real, say, shoes. If you manufacture a pair of shoes at an average cost of $12 sell them for $22 your gross margin is $10. At 6.7% profit you make just $0.67 when you sell a pair - that's sixty-seven cents. You would need to sell 26 million pairs of shoes to recover your wasted IT spend. Let me put that into a business context: How would you like to sell 26 million more pairs of shoes this year - at no additional cost!

This is the very stuff of competitive advantage, market leadership and industry survival. What is your cost to deliver $17,500,000 pure profit? The answer is astounding: average IT waste costs the equivalent of $261,194,029 in lost top line equivalent revenue (sales). Your cost ___________ total IT waste / ______ profit margin = $___________________ (equivalent sales lost)

Perhaps the inability to understand this and tackle it seriously and with a sense of urgency is why over 50% of CEOs question the value of their IT organizations. Maybe this is why there is an undercurrent in business today questioning whether CIO's belong on the board, and even asking if the CIO role is an appropriate one at all.