

## **IT's Business Value Can Be Determined**

**The business value of IT can be determined by a combination of subjective evaluation and ongoing performance measurement of IT's impact on business processes.**

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### **Core Topic**

Business Management of IT: Organization and Governance

### **Key Issue**

How will the IS organization best support the enterprise's business goals?

Enterprises first used IT as a tool for automating high-volume, data-intensive processes, such as accounting and customer billing, within individual departments to reduce labor costs and increase speed and accuracy. The introduction of the PC brought personal productivity in creating documents and spreadsheets, reducing costs and improving knowledge retention. Enterprise resource planning applications led to better production planning, quality and inventory control, expense management and more-efficient distribution. The advent of communications networks and Internet access brought greater speed and agility, knowledge sharing, collaboration, lower costs and greater satisfaction through customer and supplier integration and self-service, and, in some cases, the creation of new revenue streams.

The business value of IT is spread across a myriad of business processes and activities, yet the cumulative and ongoing annual costs of all these IT investments is quite apparent, especially if they are concentrated in one budget. It is tempting to view IT as just another cost center; however, IT must not be regarded in this manner if it is to deliver business value. Developing an IT business value proposition will help to create the ongoing strategic dialogues that will define how IT can increase business value.

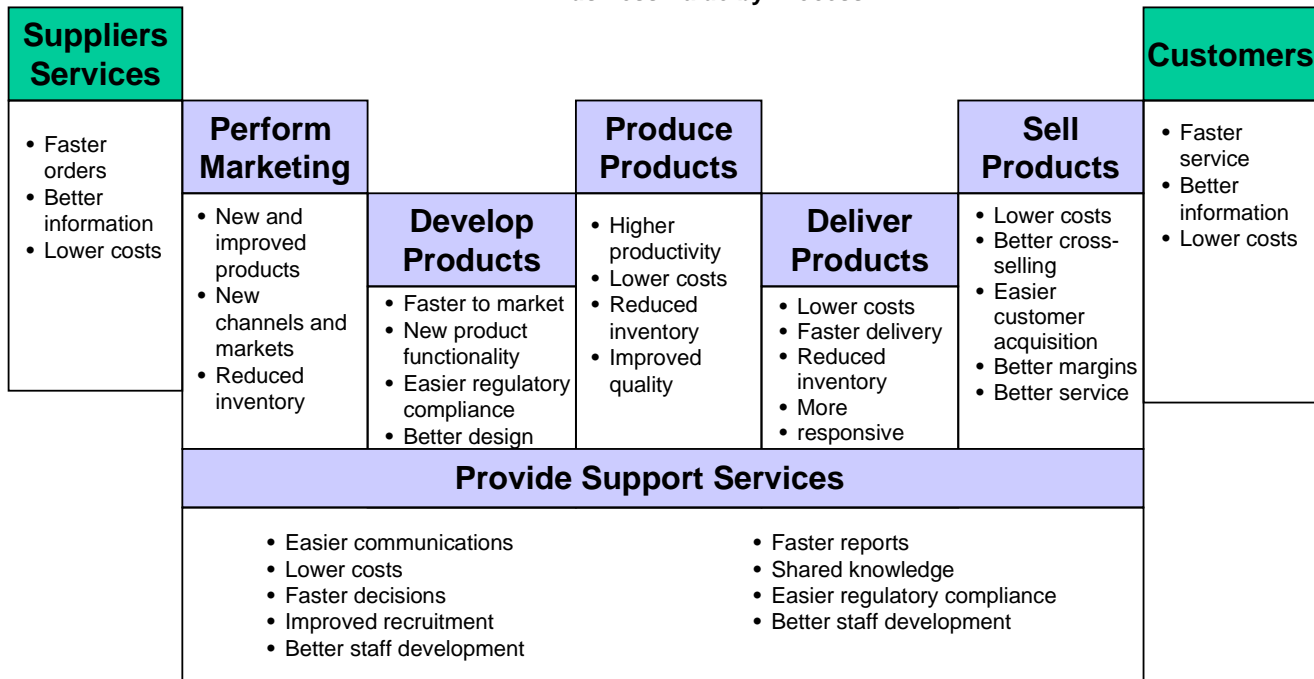
The business value of IT lies in its ability to conduct business processes more reliably, faster and at lower cost; and to control inventories, increase revenues, reduce time to market and provide information that enables better decisions. Therefore, assessing the business value of IT means establishing a link between IT and its contribution to business processes. Only then can IT costs be viewed in the proper context.

### **Gartner**

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Figure 1 lists typical business processes and the types of business value generated in each process area.

**Figure 1**  
**IT Business Value by Process**



Source: Gartner Research

To determine the business value of major business applications, map them against the key business processes they support, breaking down the core business processes into lower-level subprocesses as required. Then identify the value contributed by each application. This is best done in workshops with key business staff. Questions to ask include:

- What would the process look like without IT?
- How many more staff members would be employed to undertake these tasks?
- How much faster is the information processed and made available because of IT?
- How much greater would inventory be if stock was controlled manually?
- How much lower would plant throughput be without automated scheduling?
- What customer benefits would be lost without IT?

As these questions are answered, plausible ranges for the value of IT's contributions can be estimated. Note that mathematical precision is not normally possible; the objective is to gain consensus on the plausible range of business value for comparison with IT costs.

Note that the processes defined above include not only internal processes but also external links to suppliers, service providers, distribution channels and customers. The value of e-business applications is likely to be found in these processes, as well as in streamlined internal processes.

Once a baseline value of individual IT applications has been determined, several actions can be taken.

- Check that the assessed range of values exceeds annual costs of the application. If not, why not?
- Should the application be terminated?
- Review all business processes where there is little or no IT coverage. Are there possibilities for new business applications to streamline business processes?
- Review each process to determine where IT could deliver more value. What is the cost and benefit of further IT investment in that business process?

The more information that is understood by IS organization and business staff about the current value contributions of applications, the easier it becomes to develop the business cases for proposed new applications.

**Bottom Line:** Savvy CIOs develop, maintain and communicate IT's business value propositions for all major applications, and use them regularly as part of the dialogue with all stakeholders to review overall IT performance and investments.