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Achieving the Self-Funding IT Initiative: A Senior Executive's Guide

*Linking Finance, Technology & Governance to
"Fix what is broken first, using the savings to fund IT & achieve even more"*

Introduction

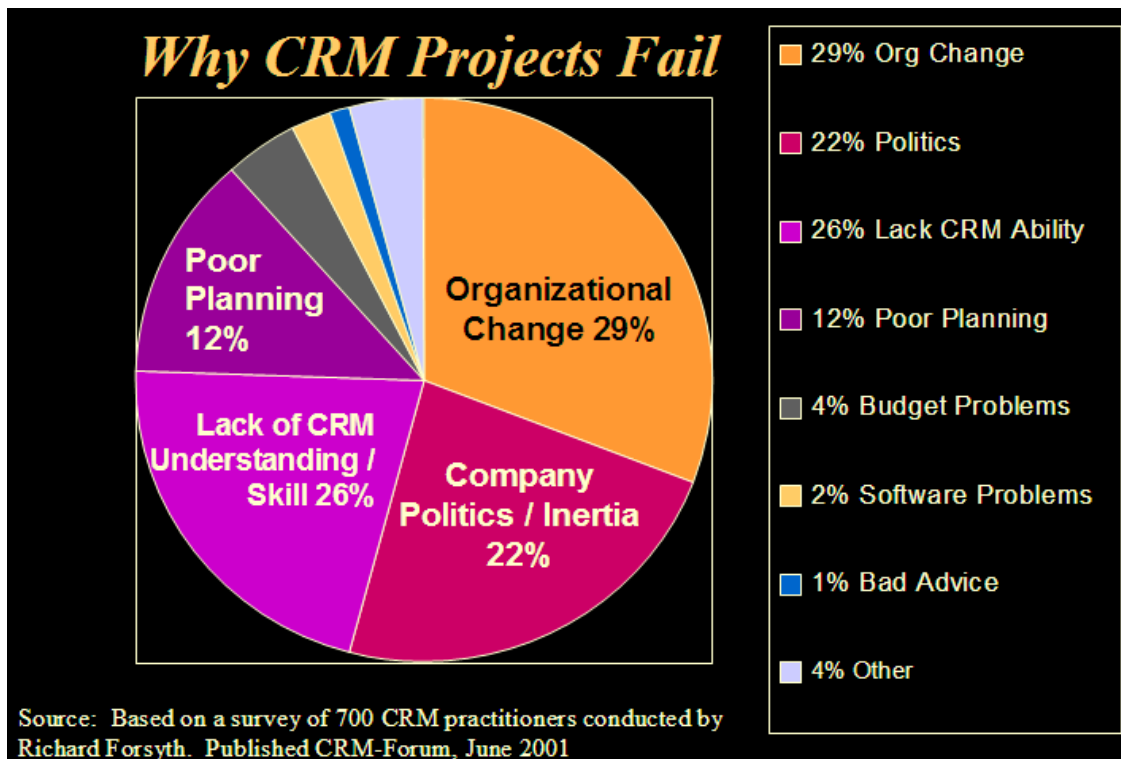
The fallacy is that technology will fix what is broken. Technology does not re-engineer processes, realign a misaligned organization, overcome political issues, confront incompetence, or address customer dissatisfaction. It does not force the organization to meet deadlines, ensure data integrity, or integrate incompatible systems across the supply chain.

These are what kill projects. They stem from a lack of leadership, cultural resistance, and inadequate project planning and management skills.

Technology and IT professionals do not drive change. They enable change! The challenge then, is to keep IT in a constant alignment with “the business,” and both of them advancing together. The correct approach is a collaborative effort to improve the business in a self-funding way prior to the technology deployment. This corrects problems, defines business requirements, and lays the cultural groundwork. Use the savings to fund IT, and leverage that to achieve even more. The case presented later will show how one company saved \$35 million before deploying new systems.

Why IT Projects Fail

■ Let’s understand why IT projects fail. In a study of 700 Customer Relationship Management (CRM) practitioners conducted by Richard Forsyth, published in CRM Forum, June 2001, the question was asked, “Why do CRM technologies implementations fail?” Surprisingly, the technology itself was rarely mentioned. Budgeting was only a minor issue. The top four reasons, accounting for 89% of the failures, had to do with people, politics, planning and process.



Aligning “The Business” & IT from the START©

There is a thread of logic connecting strategy, customers, operations and IT which can be remembered by the acronym START©. It integrates the financial, marketing, operational and technology perspectives of the business, using reporting and measurement as a common ground.

- **S**trategic Intent – Where are you now? Where are you going? How will you get there? How can this be stated and measured in financial terms?
- **T**argeted Customers & Services – Achieving financial goals depends on deploying resources and efforts where they can achieve the greatest return. This means selling high-margin products to high-value customers, while minimizing selling low-margin products to high-maintenance customers
- **A**ligned Processes – Delivering products and services that meet customer requirements at the least cost depends on the efficiency & effectiveness of business processes
- **R**eporting & Measurement – Process performance is hinged on an environment of visibility, accountability, and fact-based decisions, which can only be achieved through effective controls and active review of relevant reporting
- **T**echnology – Reporting and measurement reflects the financial, marketing and operational views of the business. Because information must be captured, stored, manipulated and delivered, your measurement and reporting tells you a great deal about your IT requirements

START© was born from a review of failed IT implementations

The START© Methodology was born toward the end of the Dot.com era in the late 1990’s while trying to automate Customer Relationship Management requirements for immature companies without viable business models. The technology worked, but it rarely achieved its intended purpose.

Using Balanced Scorecard theory to dissect failed projects, it was apparent that a sustainable company:

1. Required a viable business model to make a profit and endure
2. Long-term success depended upon acquiring and retaining the right customers
3. Reaching and serving those customers profitably depended upon appropriate, aligned, and efficient processes
4. If one put relevant metrics around strategy, customers, and process, and automated the reporting, they could not only manage the business, but had a window to their information requirements
5. The interactions above dictated the business requirements for technology

Using this logic and the right governance, a company can continually optimize. The intelligence can be used to drive out costs and improve margins as well as successfully deploy IT solutions.

- The heart of START© is comprehensive performance measurement, creating an environment of visibility and accountability for results
- Using these measures, identify and quantify pain points from the five perspectives of START©, securing the support of internal and external customers by exploring the interdependencies
- Establish formal governance (using the START© Deployment Model below) to provide the structure and leadership to continuously implement high-value, team-based solutions across organizational lines.

While the Dot.com era has passed, we have since seen the START© approach score stunning wins for companies in transition, saving tens of millions of dollars.

Steps to Deploy the START© Model for Continuous Improvement

- 1) Implement Performance Measurement & Management – Create an environment of visibility and accountability using Activity Based Costing, the Balanced Scorecard or a similar performance discipline. Define immediate pain points that might be used as pilot programs to develop the organizational skills for continuous improvement.
- 2) Make analysis, governance & execution a core competency – The “learning organization” evolves, getting smarter over time. You will require a formal approach and dedicated staff for managing change. The START© Governance Chart which follows offers such an approach, allowing you to manage enterprise-wide initiatives, and the milestones and sub-initiatives within.
 - Leadership – Executive sponsorship & dedicated staff
 - Strategy – Setting a direction and identifying, scoping, prioritizing and resourcing initiatives and sub-initiatives that will achieve the strategy
 - Structure – Formal governance, performance measurement, project planning and team commissioning
 - Execution – Project management, active review of relevant reporting
 - Endurance – Anchoring wins and driving further gains via governance and control

| The START Governance Chart©: Scaling the Solution to the Need | | | | |
|---|--|--|--|---|
| Stages: | STRATEGY | STRUCTURE | EXECUTION | ENDURANCE |
| Leaders: | Exec Sponsor & Performance Champion | Performance Champion | | |
| | | Senior Business Analyst & Senior Project Manager | | Responsibilities Are Shared |
| <p>DEPLOYING PERFORMANCE MEASUREMENT & MANAGEMENT WHILE MAKING CHANGE MANAGEMENT A CORE COMPETENCY</p> <p>(May be used to implement other enterprise-wide initiatives. Check the boxes that apply. Not all may be necessary.)</p> | <p>Leadership</p> <ul style="list-style-type: none"> <input type="checkbox"/> Designate the Executive Sponsor <input type="checkbox"/> Appoint the Performance Champion <input type="checkbox"/> Address Issues of Ineffective Leadership <p>Enrolling Support</p> <ul style="list-style-type: none"> <input type="checkbox"/> Balanced Scorecard Strategy Map or Executive Summary <input type="checkbox"/> Pain Point Analysis <p>Scope the Project</p> <ul style="list-style-type: none"> <input type="checkbox"/> Business Case <input type="checkbox"/> High level process diagram(s) <input type="checkbox"/> Approvals | <ul style="list-style-type: none"> <input type="checkbox"/> Modeling/testing of performance tools <input type="checkbox"/> Early reporting environment defined <input type="checkbox"/> Governance Structure <input type="checkbox"/> Sr. Business Analyst <input type="checkbox"/> Sr. Project Manager <input type="checkbox"/> Detailed Process Mapping & Analysis <input type="checkbox"/> Detailed Project Plan for Pain Points & Milestones <input type="checkbox"/> Project Team(s) Commissioned | <ul style="list-style-type: none"> <input type="checkbox"/> Rollout of Enterprise-wide analytics & business intelligence tool(s) <input type="checkbox"/> Ongoing analysis of the reporting environment <input type="checkbox"/> Project Management | <ul style="list-style-type: none"> <input type="checkbox"/> Recognition & Rewards <input type="checkbox"/> Incentive Program <input type="checkbox"/> Formal Training <input type="checkbox"/> Controls in Place <input type="checkbox"/> Refine Reporting Environment <input type="checkbox"/> Documentation <input type="checkbox"/> Exec Summit to update Strategy Statement & Map <input type="checkbox"/> Knowledge Transfer from consultants <input type="checkbox"/> Develop calendar for continuity activities |
| | <input type="checkbox"/> Identify pain points, milestones and sub-initiatives. Implement solutions using the stages in the START© Governance Chart. In the process develop the organizational discipline for continuous improvement. | | | |

The START© Model for deploying enterprise-wide performance measurement & management

Establish a track record of success by addressing performance issues, identifying pilot programs, placing key people in key roles, harvesting low-hanging fruit, re-thinking the organizational design if necessary, benchmarking progress, and defining business requirements for technology. It is wise choices here that will fund your IT investment.

- 3) Use Pain Points as pilots to build skills, “fix stuff,” and pre-fund IT – The point has been made that IT does not fix broken processes, etc. A prerequisite to new systems implementation is that significant process and organizational work will need to be done on critical pain points and deliver measurable financial returns. This defines business requirements for new systems, develops cultural acceptance, and builds execution skills. The case presented next tells how one company saved \$35 million before the IT deployment
- 4) Link the full IT deployment to a “rule-changing” business win – With new capabilities, insights, work flow, savings and momentum, identify a compelling win that:
 - Has large financial payback
 - Creates competitive advantage
 - Will earn the buy-in of the organization by solving a large problem

Make that the driving force for technology and related initiatives. Use the skills gained to break the larger initiatives into milestones and implement those too in a self-funding way.

Ahold's 5/50 Focus - Achieving the Self-Funding IT Initiative

To illustrate these concepts we will use the case of Royal Ahold, a Fortune 500 company and one of the world's largest grocery retailers. As a large company, Ahold self-insures much of its risk.

Typical of a commercial insurer's casualty portfolio, approximately 5% of Ahold USA's total inventory of outstanding claims represent about 50% of outstanding reserves or in Ahold's case, \$300 million. This means that Ahold must hold reserves of \$300 million for these liabilities to cover the potential losses from 1,000 high-exposure claims.

Additionally, approximately 60% of Ahold USA's casualty claims are related to Workers' Compensation which is adversely impacted by annual medical and drug inflation of 15%. These losses directly impact Ahold's bottom line.

The Key to the Self-Funding IT Initiative -

Fix what is broken first, using the savings to fund IT & achieve even more

Ahold believes that by identifying high-exposure claims early and giving them priority handling, they can reduce premium over the next 5 years by 2% to 5%. This equates to \$5-10 million in annual savings on insurance premium. It represents a potential reduction in loss reserves of \$10-15 million, which drops right to the bottom line. The initiative is known as "The 5/50 Focus."

As part of pursuing this vision, Ahold's wholly owned claims administrator, MAC Risk Management, is implementing state-of-the-art claims administration technology. The deployment will touch nearly every area of the business.

The 5/50 Focus and this technology deployment can potentially change the insurance industry. By using Ahold's claims management as a lab, their supply chain vendors can use the learning to develop best in class capabilities that will benefit their other customers as well (giving these vendors competitive advantage, of course).

It's a noble, but aggressive vision offering a shared win for all. How can it be brought to life?

The tools and analysis leading up to Ahold's 5/50 Focus are covered more thoroughly in the paper, "Turning Pain into Participation," by Henderson, 2008. The "Pain" article deals heavily with change management and enrolling support. It too uses Ahold's insurance claims administration as a business case, showing how in three years they saved more than \$35 million using the principles of START© to establish governance, deploy Activity Based Costing, use the Balanced Scorecard to map strategy, and build an internal organization capable of driving continuous improvement.

Strategic Themes & Objectives Driving Technology Requirements

Achieving these savings will require best in class claims handling. MAC Risk Management will need new tools, leaner processes, better controls, business intelligence, and a best in class supply chain. All efforts will be measured in light of the shared vision of identifying and proactively handling the 5% of claims representing 50% of insurance losses.

Clearly there are many action items linked to targeting the 5% of claims representing 50% of insurance losses. These go way beyond technology. The objectives can be grouped under strategic themes.

Strategic Themes and Objectives for Ahold's 5/50 Insurance Focus, That Will Drive Technology Requirements

Find or Grow Excellent People

- Eliminate mistakes by creating an environment of visibility and accountability
- Invest in people
- Remove barriers to productivity & effective decision making

Create & Exploit Opportunities using Overwhelming Support

- Understand, improve, automate and control the handling of high-exposure claims
 - Faster Reporting of Claims
 - Faster Initial Investigation of Claims
 - Identify High-Exposure Claims early
 - Identify, eliminate and better respond to events that might escalate exposure
 - Use of Medical Case Management for certain Workers' Comp claims
 - Define and standardize processes, automating them where possible
- Take a "cradle to grave" view of the claims management process, leveraging the capabilities of vendors and customers and sharing the rewards
- Assign the right resources to the right claims at the right time to pursue aggressive & favorable settlement of high-exposure claims

Empower People to Make the Right Decisions

- Master skills for project selection and execution
- Make analysis and business intelligence a core competency by having a dedicated staff, and implementing tools linking strategy, key performance indicators and project management
- Implement best in class claims handling technology and processes

\$35 Million in Savings Prior to the IT Implementation

Between 2005 and 2008 MAC Risk Management applied the principles of START© to establish governance, deploy Activity Based Costing, use the Balanced Scorecard to map strategy, restructure the management team and build an internal organization capable of driving continuous improvement. Process and leadership enhancements during this time have saved Ahold more than \$35 million.

With this infrastructure intact, MAC Risk Management is now able to think about best in class possibilities. The 5/50 Focus would not be an option had these improvements not taken place.

Implementing the next round of upgrades will require structure and governance as well. On the revised START© Governance Chart below, rows for "Sub-Initiatives & Milestones" and "Six Sigma Projects" have been added. The same model used to restructure MAC and deploy ABC can be used to drive strategy and operational improvements continuously, even for Six Sigma companies.

| The START Governance Chart©: Scaling the Solution to the Need | | | | |
|---|---|--|--|---|
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| Leaders: | Exec Sponsor & Performance Champion | Performance Champion | | |
| | | Senior Business Analyst & Senior Project Manager | | Responsibilities Are Shared |
| DEPLOYING PERFORMANCE MEASUREMENT & MANAGEMENT WHILE MAKING CHANGE MANAGEMENT A CORE COMPETENCY (May be used to implement other enterprise-wide initiatives. Check the boxes that apply. Not all may be necessary.) | Leadership <ul style="list-style-type: none"> <input type="checkbox"/> Designate the Executive Sponsor <input type="checkbox"/> Appoint the Performance Champion <input type="checkbox"/> Address Issues of Ineffective Leadership | <ul style="list-style-type: none"> <input type="checkbox"/> Modeling/testing of performance tools <input type="checkbox"/> Early reporting environment defined <input type="checkbox"/> Governance Structure <input type="checkbox"/> Sr. Business Analyst <input type="checkbox"/> Sr. Project Manager <input type="checkbox"/> Detailed Process Mapping & Analysis <input type="checkbox"/> Detailed Project Plan for Pain Points & Milestones <input type="checkbox"/> Project Team(s) Commissioned | <ul style="list-style-type: none"> <input type="checkbox"/> Rollout of Enterprise-wide analytics & business intelligence tool(s) <input type="checkbox"/> Ongoing analysis of the reporting environment <input type="checkbox"/> Project Management | <ul style="list-style-type: none"> <input type="checkbox"/> Recognition & Rewards <input type="checkbox"/> Incentive Program <input type="checkbox"/> Formal Training <input type="checkbox"/> Controls in Place <input type="checkbox"/> Refine Reporting Environment <input type="checkbox"/> Documentation <input type="checkbox"/> Exec Summit to update Strategy Statement & Map <input type="checkbox"/> Knowledge Transfer from consultants <input type="checkbox"/> Develop calendar for continuity activities |
| | Enrolling Support <ul style="list-style-type: none"> <input type="checkbox"/> Balanced Scorecard Strategy Map or Executive Summary <input type="checkbox"/> Pain Point Analysis | Scope the Project <ul style="list-style-type: none"> <input type="checkbox"/> Business Case <input type="checkbox"/> High level process diagram(s) <input type="checkbox"/> Approvals | | |
| Sub Initiatives & Milestones Including the IT Deployment | <input type="checkbox"/> Business Case development, presentations and approval of sub-initiatives | | <input type="checkbox"/> Project Management | <input type="checkbox"/> Controls put in place <input type="checkbox"/> Documentation <input type="checkbox"/> Update reporting environment <input type="checkbox"/> Update the Strategy Statement or Business Case <input type="checkbox"/> Knowledge Transfer from consultants <input type="checkbox"/> Develop calendar for continuity activities |
| | <input type="checkbox"/> Assign Project Manager <input type="checkbox"/> Project Scope <input type="checkbox"/> Project Team commissioned <input type="checkbox"/> High level process diagram(s) <input type="checkbox"/> Pain Point Analysis | <input type="checkbox"/> Detailed Process Mapping & Analysis <input type="checkbox"/> Project Plan <input type="checkbox"/> Update reporting environment based on information required for analysis | | |
| Six Sigma Projects (For Six Sigma companies) | <input type="checkbox"/> Assign Project Manager / Team <input type="checkbox"/> Define Stage <ul style="list-style-type: none"> <input type="checkbox"/> Project Charter <input type="checkbox"/> Define Customer Requirements <input type="checkbox"/> High level process diagram(s) | <input type="checkbox"/> Measure Stage <ul style="list-style-type: none"> <input type="checkbox"/> Data Collection Plan <input type="checkbox"/> Collect Data <input type="checkbox"/> Analyze Stage <ul style="list-style-type: none"> <input type="checkbox"/> Data Analysis <input type="checkbox"/> Process Analysis <input type="checkbox"/> Root Cause Analysis | <input type="checkbox"/> Improve Stage <ul style="list-style-type: none"> <input type="checkbox"/> Generate Solutions <input type="checkbox"/> Select Solutions <input type="checkbox"/> Implement Solutions | <input type="checkbox"/> Control Stage <ul style="list-style-type: none"> <input type="checkbox"/> Control Methods <input type="checkbox"/> Response Plan |

The START© Model works for deploying IT, sub-initiatives, and Six Sigma projects as well

IT is paid in full!

One might rightly question that since Ahold has yet to deploy the 5/50 Focus and implement the technology, “How can they declare it has been self-funding?” The answer is that by fixing broken processes, outsourcing non-core functions, and restructuring the organization, they have already saved more than \$35 million in three years. Effectively they have pre-paid for the migration since it is business improvements that fund new systems.

This is the correct approach. Fix what is broken first, using the savings to fund technology and achieve even more.