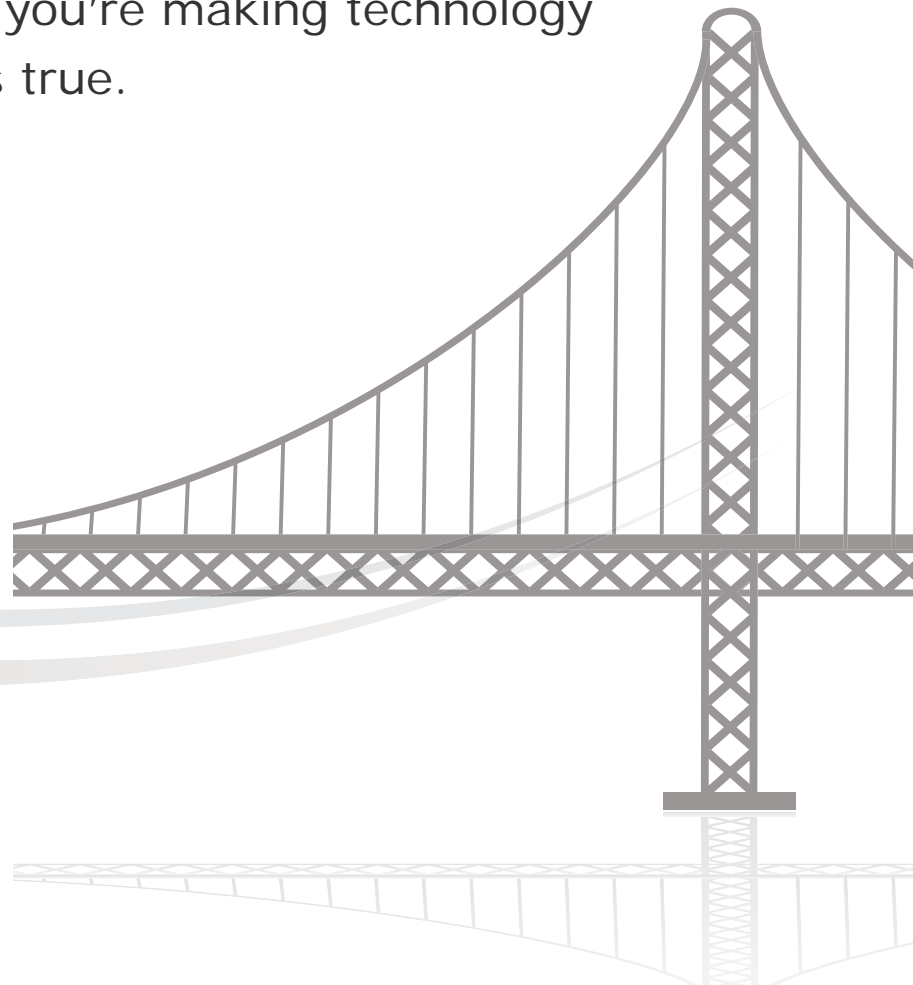


# BRIDGING THE CIO-CFO GAP

Bridging the gap between IT and finance requires aligning technology investments with business objectives.

Have the feeling someone is looking over your shoulder lately when you're making technology buying decisions? It's true.



## Getting to yes.

Face-to-face, prove your case.

Those fingers you sense gripping the back of your seat belong to your chief financial officer (CFO). CFOs at most organizations are imposing a much tighter level of scrutiny on both capital and operational IT budgets. That's because they sense the fingers of the CEO, the board, and the shareholders gripping the backs of their seats.

All of this shared angst reflects a trend in IT departments—and other departments as well—toward increased accountability. Nobody is getting anything these days—technology or business services—that can't deliver a short payback time and a positive ROI. This isn't to say that not spending on IT is the outcome preferred by increasingly vigilante CFOs. In fact, tight budgets in many organizations are driving investments in technologies that lower TCO, increase productivity, improve customer satisfaction, and in general, provide significant competitive advantages.

What separates the technology projects that get funded from the ones that don't is the ability of their proponents to develop a compelling business case. These days no CFO is approving funds for technology for technology's sake. But CFOs are approving technology solutions supported by solid financials.

### **BRIDGING THE CIO-CFO GAP**

The trick for IT professionals is translating the potential of a specific technology solution into a language that CFOs understand. Accomplishing that trick, however, involves much more than learning how to say NPV, IRR, and ROI. A communication gap currently exists between IT and finance; bridging that gap requires such hard-to-quantify values as trust and a sense of shared goals and responsibilities—of being on the same team.

The best strategy is to get IT and finance professionals sitting face-to-face around a table where everyone can contribute, each in his or her own way, to the underlying well-being of the organization.

This is a favorable trend for IT professionals. An increasing number of corporations now recognize that technology is fundamental to their success and are elevating IT to a C-level position within the executive suite. Before IT can take its place at the executive table as an equal partner, however, it has to learn and internalize the rules of the game.

### **FROM DATA PROCESSING TO DOT-COM**

IT and finance used to be connected at the hip. Not long ago IT, originally called "data processing," served the accounting department. Its singular role was to provide reliable data that accountants could use to balance the books. As the network increasingly became the company, IT served all business units, growing in scope until it became its own entity within the organization.

In today's environment of increasing financial scrutiny, CFOs insist on a compelling reason—in terms they can understand—before opening organizational purse strings.

A good first step in establishing an effective collaboration between IT and the CFO is recognizing that IT is just one of the many budget lines that CFOs have to balance. This means that anything IT requests must first make sense within the overall strategic plan for the company.

“At the highest level, my role as CFO is to participate in determining the strategic direction of the company and to communicate where we are going to shareholders and lenders,” says Logicalis CFO Greg Baker. “Below that I have a steward role to provide fiscal responsibility, ensure there are good controls in place, and that the data required to make sound decisions is available.”

To help him make educated choices, Baker participates in the annual development of an overall strategic plan, which identifies the direction the company wants to take during the coming year. It also serves as a reference point for all the capital and operational spending decisions he has to make.

“When it comes to business investment—which is where IT plays—there are typically a lot of hungry mouths to feed,” Baker says. “Everybody is trying to drive their piece of the business, and they need technology to support their initiatives. My challenge is to make sure the right mouths get fed at the right time.”

One of the challenges for IT, according to Logicalis IT Director Terry Strohecker, is that, because that group serves all of the business units, it has essentially more than one mouth. IT is not putting in unified communications—such as IP telephony, email, IM, and presence systems—because the IT team wants it. The investment in unified communications, for example, makes the entire organization more productive and cuts overall communication costs. But IT pays for it. This disconnect between where the cost originates and where the benefits flow requires IT to collaborate closely with every business unit, balancing their requests with each other.



## CHARTER OF PROJECTS

To perform this balancing act gracefully—and with eyes open—Strohecker develops a charter of projects in the fourth quarter of every fiscal year. The charter of projects is essentially a strategic plan for IT and is purposefully designed to reflect the larger corporate strategy.

Once the charter of projects is established, technology requests can be evaluated in context; any adjustments that need to be made are moderated by the charter, which, in turn, is moderated by the corporate strategy.

Financial ratios provide an important way to evaluate and compare the relative merits of different investments, but they make sense only in the context of a charter of projects that has built-in checks and balances linked directly to the overall corporate strategic plan. (See the sidebar, *The Writing on the Wall*, on page 5.)

Unfortunately, a surprisingly small percentage of IT departments takes advantage of the charter-of-projects model to manage requests for technology investments from their various constituents. For lack of such a model, their accomplishments too often go unnoticed, and they have no agreed-on context to use on evaluate requests that are tossed to their desks and marked “urgent” throughout the year.

Strohecker notes: “In July and August, when one of the business heads comes to us and says, ‘Hey, we’d like a new quoting tool,’ or, ‘We’d like to do some BI,’ we say, ‘Let’s look at the charter for this year, and if we are going to stay at the same resource level, then let us know what we can take off the list. What do we cut? Or, if cutting is not an option, then we have to find other resources.’ The charter of projects helps us stay on the same side of the problem with the business units so it doesn’t become us versus them.”

The charter of projects also helps Strohecker moderate what he considers his biggest complaint with the business side of the corporate

aisle: a sometimes flagrant tendency to make procedural and/or organizational changes without realizing the impact they can have on IT.

## APPLES AND ORANGES

Because of the huge diversity of technology projects that cross an IT director’s desk, comparing the relative merits of one to another is like comparing apples to oranges. The relevant variables for each solution are so different.

Logicalis uses a Project Management Office (PMO) rating sheet to help systematize its technology decisions. A key feature of the spreadsheet is most CFOs’ financial ratio of choice: ROI. But the rating sheet also takes into account other key factors to be considered and weighed in the final decision. These are:

**RISK** – What effect will this initiative have on the security of the company’s applications or operations?

**URGENCY** – When must this initiative be complete?

**PRODUCTIVITY** – How much will this initiative increase productivity?

**MANDATE** – Is this initiative being undertaken to address a legal/contractual obligation? Is this a directive from the CEO?

**IMPACT** – What kind of business, strategic, tactical, or operational impact will this have?

**CUSTOMER SERVICE** – How will this initiative improve customer service levels?

**ALIGNMENT** – How well does this initiative support the organization’s goals and objectives?

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Each variable has a set of choices that generates a “Decision Weight,” making it possible to prioritize one technology solution relative to another (a blank template can be downloaded from the Logicalis Web site at [www.us.logicalis.com/CFO](http://www.us.logicalis.com/CFO)).

A level of standardization is established by asking the same set of questions about every technology proposal. The visible logic of the template provides talking points that focus discussions between the IT director and the CFO on the relative importance of a specific project within the context of an organization’s needs. In other words, the IT director isn’t just pitching technology for technology’s sake, and the CFO isn’t just saying, “We can’t afford it.”

The bottom line is that finance and IT professionals have a lot more in common than their sometimes antagonistic stance would suggest. They both tend to be very analytical and detail-oriented. Both are guilty of wrapping the obscurity of their respective specialties around them like a wizard’s robe, on occasion, and they obviously enjoy having their own jargon.

But in the current environment of tightening budgets and increasing competition, allowing IT and finance to speak two different languages is a luxury no business can afford.

## FINANCIAL RATIOS OF CHOICE

The writing is on the wall in virtually every IT department; in very big letters, it spells out “ROI.” To get the full picture, CFOs generally like to see ROI projected over a three-year period.

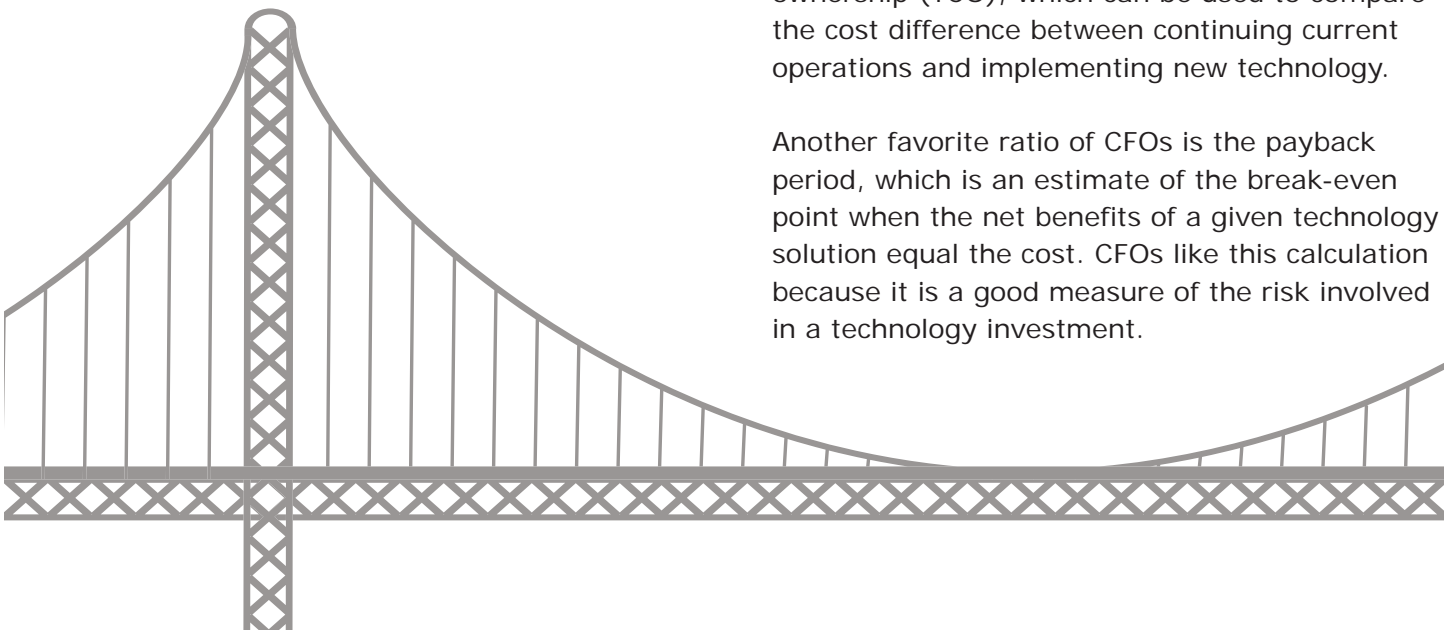
The trick to coming up with a useful ROI calculation is in identifying all of the sources of cost (hardware, software, training, downtime, etc.) as well as all of the sources of benefit (direct savings, enhancements to productivity and improvements to quality—i.e., customer satisfaction).

Fortunately, experienced CFOs understand the challenge of getting a real ROI estimate. In fact, a good strategy is to engage the CFO in coming up with the appropriate matrix. By engaging them in the process, you show you understand their needs and, at the same time, have an opportunity to educate them about the technology you are proposing.

ROI calculations are best suited for strategic technology investments like implementing Unified Communications, for example, as opposed to operational technology costs like Managed Services.

Investments like Managed Services that improve and/or enhance current technology systems are better measured in terms of total cost of ownership (TCO), which can be used to compare the cost difference between continuing current operations and implementing new technology.

Another favorite ratio of CFOs is the payback period, which is an estimate of the break-even point when the net benefits of a given technology solution equal the cost. CFOs like this calculation because it is a good measure of the risk involved in a technology investment.



## FINANCIAL JUSTIFICATIONS

*Some Real World Technologies You May Be Proposing.*

### Application Services

Software applications are the essential tools that business users use to do whatever they do. Making applications more efficient, adding functionality, linking them together and extending their reach, as a result, has a quantifiable impact on the bottom line of any business. The dispersion of benefits among the users can make determining ROI for a specific project inherently complex, but there are some very compelling ways to save costs in application design, development, deployment, and support.

For example, by turning to Logicalis when he needs application specialists, Wilton Re CTO Andy Wood is able to efficiently and effectively manage all of the IT needs of a successful firm in the reinsurance business.

"We like to partner with Logicalis because they have a broad range of skills we can ramp up and ramp down as we need them," Wood says.

By reducing the time and cost of application development, Application Services contributes to a lower TCO, effectively allowing the applications you utilize to result in a higher ROI.

### Business Information Management

"The most fundamental way Business Information Management impacts the income statement on the balance sheet is by helping companies make better decisions at all levels," says Logicalis Vice President of Business Information Management Chris Rafter, "from senior executives all the way down to daily operational decisions."

The costs of unreliable data can be staggering. The more essential the application is to the organization, the higher the reward for enhancing its performance. A

major company in the transportation industry, for example, turned to Logicalis for help with a deteriorating application that was essential to its operations. Downtime, which was occurring with regularity, was estimated conservatively to cost \$1,000 an hour. By performing extensive rehabilitation on the application, Logicalis was able to save the customer \$483,929 a year for a three-year net present value annualized benefit of \$1,317,834.17 (assuming a 5 percent cost of capital), and a three-year ROI of 864 percent. The CFO was very pleased.



### Enterprise Computing

Few other solutions in technology have offered such dramatic financial incentives as Consolidation and Virtualization. Just the savings from consolidation in terms of power consumption, floor space, hardware maintenance, and infrastructure growth containment can generate head-turning numbers.

A study Logicalis completed for a large enterprise in the financial industry, for example, showed that consolidation could reduce the TCO of its IT environment from \$12.8 million over five years to \$5.2 million.

On a smaller scale, another Logicalis customer was able to reduce the three-year cost of its infrastructure from \$740,000 to \$595,000, a savings that might be even more vital to a small company than the millions that can be saved in a Fortune 500 company.

Every enterprise consolidation effort is unique, but what they all have—or should have—in common is a measured approach that is derived from a detailed analysis of the current IT infrastructure and designed to serve the future needs of the corporation.

### Managed Services

TCO provides the best financial formula for evaluating Managed Services—the package of services that covers monitoring, reporting, and maintaining IT infrastructure. Given the wide recognition that the typical IT department spends as much as 80 percent of its time and energy putting out fires and keeping the lights blinking in the right places, there is significant room for saving money with Managed Services. Business Benefits for Managed Services including the following:

- Access to technologists with skill sets, certifications, and experience that make them too costly for most IT departments to employ on a full-time basis.
- Implementation of the Information Technology.
- Infrastructure Library's (ITIL) best practices.
- Predictable costs and service-level agreements.
- Managed Services takes some of the guesswork out of IT budgets by containing the cost of IT operations.

One of the benefits of Managed Services with the greatest upside is also one of the hardest to quantify: It's what happens when an IT department is freed from the routine oversight and maintenance of the IT infrastructure so it can focus on supporting business initiatives.

Appreciating the value of this benefit is often in the eye of the beholder, according to Alley. "The difference between an organization that can see the benefit of a proactive IT department and one that cannot is the difference between an organization that views

IT as overhead and one that views IT as an asset," he says.

### UNIFIED COMMUNICATIONS

In terms of its potential to drive a high rate of return, Unified Communications has been compared to voicemail in the 1970s and email in the 1980s. Intuitively, it's very compelling. Actually calculating the ROI for unified communications, however, can be tricky.

Savings that come from the elimination of telco charges and the simplification of moves, adds, and changes are easily quantifiable. The benefits associated with Unified Messaging, Collaboration, Presence, and Mobility are so dispersed through the user base that they are more difficult to measure. They include the following:

- Extending the workspace beyond its traditional desktop-bound limitations.
- Speeding access and improving communication.
- Integrating different device modes and communication applications.
- Facilitating collaboration among employees and with partners and customers.
- Streamlining business processes.
- Enhancing engagement and collaboration for remote employees.

Unified Communications provides many opportunities to leverage a wide range of technology transitions, including implementing IP Telephony, integrating branch offices, and/or acquired companies into a single voice and data network, and upgrading to the latest version of Exchange or Notes.

Unified Communications also lends itself to pilot programs that can be very focused on providing specific sets of features for defined communities of users. Besides providing hands-on experience with the underlying technology, pilot programs are good models from which to extrapolate the projected ROI from extending Unified Communications.

## THE VIEW FROM ONE CFO'S DESK

**Westcon Group**, a multibillion-dollar, multinational specialty distributor of networking technology products for the solution provider, integrator, and value-added reseller community, is also a major consumer of technology solutions for its own operations. During the go-go years of the late 1990s, Westcon's annual capital budget for IT exceeded \$20 million, says Executive Vice President, Finance, and Chief Financial Officer John O'Malley. At its peak, more than 200 IT projects could have been active or under consideration.

During the past several years, O'Malley has sponsored the development of a more accountable regimen for IT capital requests at Westcon. The new process established a systematic evaluation process that ensures a compelling business case accompanies every request for new technology funds. The result has been heightened visibility for IT initiatives, greater project prioritization, an increase in financial returns, and a reduction in the number of IT projects underway at any given time—all of which produced the follow-on benefit of dramatically reining in IT spending.

"Basically, what we said to IT is that you don't have a preordained capital spending budget for next year. Our Capital Committee will assess the quality of the requests as they are presented. Your budget is not an annual entitlement," O'Malley says. "That was a rough day."

In the course of winning negotiations concerning technology investments, the system of checks and balances O'Malley installed has rationalized and optimized the technology proposal process for business, finance, and IT interests. The net result is that all sides win. The operating business is incented to propose winning projects, O'Malley gets the level of accountability he needs from IT, and IT gets to collaborate at a higher level within the capital allocation arena.

One of the key benefits to IT is that with accountability and transparency comes acknowledgement within the larger organization of IT's accomplishments. "When IT does something magnificent—like managing a key system migration—it gets showcased," O'Malley says. "The process ensures the whole company knows about it." Among the most important features of O'Malley's approach are:

- A monthly open meeting with senior executives, including the CEO, CFO, and financial planners, is held to evaluate all proposed technology investments in the context of the overall corporate strategy.
- Proposals must be presented by a regional business sponsor using a Capital Expenditure Rating Template (Logicalis' template is modeled on Westcon's).
- All proposals go through a vetting process before presentation to ensure due diligence has been applied and ROI calculated reasonably.
- The Project Management Office reconciles every dollar and closes the books on technology expenditures each month. Each committee meeting begins with a review of the status of ongoing projects, including what O'Malley calls "Section 8s," which are projects that have, or will, run over budget.
- When an approval is given, a date is set; the sponsor of the approved technology will be expected to appear before the committee in three months to report on its progress and whether the project ROI will be met.
- O'Malley promptly reviews the minutes of the monthly capital meeting at the ensuing executive meeting so everyone is aware of IT capital spending vs. budget, approved or unapproved projects, and any specific project issues.

**ABOUT LOGICALIS**

Logicalis is an international provider of integrated information and communications technology (ICT) solutions and services founded on a superior breadth of knowledge and expertise in communications and collaboration, data center optimization, application development and integration, and outsourcing and managed services.

With its international headquarters in the UK, Logicalis Group employs more than 1,600 people worldwide, including highly trained service specialists who design, specify, deploy, and manage complex ICT infrastructures to meet the needs of more than 6,500 corporate and public sector customers. To achieve this, Logicalis maintains strong partnerships with technology leaders such as Cisco, HP, IBM, and Microsoft.

The Logicalis Group has annualized revenues in excess of \$1 billion, from operations in the UK, US, Germany, and Latin America, and is fast establishing itself as one of the leading IT and Communications service providers, specializing in the areas of advanced technologies and services.

The Logicalis Group is a division of Datatec Limited, a \$4.2 billion revenue business listed on the Johannesburg and London AIM Stock Exchanges (LSE/JSE: DTC).

For more information, visit [www.us.logicalis.com](http://www.us.logicalis.com)  
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