

Transformation Execution StrategiesSM

Insights to empower you to transform enterprise performance

Economics Of Performance Transformation

Publication Category: Research Update
Publication Title: Economics Of Performance Transformation
Publication ID: US-SGA-TES-2006-008
Domain: All Domains
Topic: Execution Strategies
Released: June 06, 2006

Context:

Transforming the performance of your IT and business functions involves developing a set of objectives to be achieved as part of the transformation process. Amongst these, economic objectives are almost always front and center.

Expectations pertaining to economic objectives in your transformation planning must include, at minimum, increasing funding flexibility, enhancing financial leverage and minimizing investment risk.

These expectations can be organized into a specific list of goals. We offer some starting thoughts to help you in this regard.

Analysis:

The following five (5) economic goals are common to almost all Performance Transformation initiatives today:

1. Fund the transformation effort from current Opex
2. Shift the mix of Capex and Opex
3. Lower year-on-year rate of Opex growth
4. Variablize current Opex
5. Unitize current Opex

Fund the transformation effort from current Opex:

Thanks to the global nature of most business ecosystems, processes that benefit from labor arbitrage and scale economies can deliver your current output at a lower overall price-point, thereby freeing up funds from your current budget for investments in transformational initiatives. This has been a major driver of outsourcing, and in-particular, offshoring, during the past few years.

Shift the mix of Capex and Opex:

Large enterprise-solutions such as ERP (Enterprise Resource Planning), CRM (Customer Relationship Management) and SCM (Supply Chain Management) require multi-year investments and consequently, multi-year write-downs. Several commercial firms offer these capabilities by the drink. Going this route reduces the need to make large capital investments and allows your enterprise to pay for them via the operating budget.

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Lower year-on-year rate of Opex growth:

Increasing the in-house transformational capabilities in your enterprise IT and business function domains (like Finance & Accounting, Human Resources, Supply Chain Management, Customer Care and Product Development) lowers your variable Opex spend. Using the eTMM framework (see earlier weekly updates), shift from one maturity level to the next higher level can result in a reduction of 5% to 8% in your variable Opex spend in that domain.

Variablize current Opex:

This refers to a model wherein you pay for only the amount of consumption of IT and business process capabilities. Obviously, this implies that the provider of such a service specializes in the IT and /or business process and continually invests in keeping these capabilities current. Outsourcers as well as several software/systems companies offer these solutions.

Unitize current Opex:

This is related to the previous goal and is the mechanism driving the consumption based charge model. A cost per unit metric also makes life a lot easier with regard to budgeting, forecasting and charge-backs for IT and business functions.

Take Away:

Enterprises are constantly exploring innovative business structures to enable them to dominate their business ecosystem. Performance Transformation initiatives drive the creation of such business structures. A clear set of economic goals ensure superior Performance Transformation.

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Publications:	None

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