

DIRECT TO YOU

# Change the race

## Conventional wisdom

regards IT as an operational expense that should be trimmed in tough times – rather like the year-end function, filter coffee and other non-critical budget items. In his seminal article *IT doesn't matter*, Harvard's Nicholas Carr even defined a new rule for IT management: *spend less*. More than 77% of South African CIOs who took part in Intel's Enterprise Survey 2009 expect drastic cuts in future IT investments. Research firm Gartner predicts that 2010 will continue to be challenging and that IT budgets will increase moderately after a demanding 2009.

Organisations are clearly focusing on reducing costs and are targeting IT spending as part of the process. However, unilateral cost-cutting purely for the sake of short-term survival can be detrimental in the long term. While cost-trimming on operational IT budgets is always an option, it is the extension of these sentiments to the capital IT budget items that is downright dangerous. Making statements that IT budgets in total should be reduced, and conversely increased, in line with economic conditions is short-sighted.

The astute business manager knows that the role of IT has changed significantly over the last two decades. While the data-processing department of the 1990s focused on cost-cutting by driving internal efficiencies, the IT department of the new millennium brought new product bundles, distribution channels and location-independent services. Though the role of technology to cut costs and improve efficiencies has not disappeared, the first decade of the new millennium was IT's time to contribute to revenue on many dimensions. Today numerous organisations are in superior business

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positions as a result of low internal cost structures and the ability to serve clients effectively – positions which would never have been possible were it not for the adoption of technology. As an example, technology-intrinsic business processes have enabled an organisation like Skype to serve 500 million customers for a mere €2 revenue per client per month.

The ability to reduce operating costs and increase revenue thus seems sufficient motivation for organisations carefully to weigh investment opportunities to further strengthen their competitive position.

However, an increasing number of organisations are realising that the real opportunities presented by technology to outperform competitors

lies in innovation, be it through processes, products, distribution or collaboration. These organisations do not have an IT department, but rather see IT as a business process enablement layer that transcends all areas of the business to service new and existing clients and form relationships like never before. The concept of IT-intrinsic innovation is not new; it has led to many well-known global giants such as Amazon, eBay and Google, as well as local brands like kulula.com, Kalahari.net and mxit. The real success stories are not those where organisations use IT to win the cost and revenue race, but rather where technology is used in innovative ways to change the business race.

In future, innovation – often supported by IT – will be a factor determining an organisation's position in the business relay to the winning line, although saving costs to stay in the race and increasing revenue in order to move ahead in the race will remain important. When business leaders gather around boardroom tables to discuss IT budgets in the next decade, the issue will not be whether to increase or decrease IT expenditure in line with economic conditions, but rather to ensure that an appropriate portion of IT expenditure is allocated to initiatives that could change the business race. <sup>a</sup>

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