Forge the link between technology investment and business value

Accelerate your organization's new performance frontier

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A moment in the spotlight for CIOs

Among the C-suite, the stock of the Chief Information Officer has never been higher.

Companies are transforming more—and faster—than ever before, with technology the catalyst for their innovations. As part of this "compressed transformation," companies are focusing on creating a strong "digital core." This core uses cloud, data, artificial intelligence (AI) and an interoperable set of systems and technologies to enhance a company's business agility and its ability to rapidly innovate and develop new capabilities. And leading the pack are a handful of companies that are strategically reinventing themselves and their industries, using their digital core as a competitive advantage.[1]

Recent research from Accenture found that 88% of C-suite executives said their organizations plan to increase their technology spend as a percentage of revenue in the next 12 months. Data, analytics, AI, security and cloud are among the top areas of prioritization.[2]

As a strong digital core becomes more essential to every business, and as technical acumen becomes more of a requisite for workers at all levels, today's chief information officer (CIO) is center stage. In fact, the CIO's role looks set to increase in influence, impact and prominence. From sustainability to cybersecurity, from talent to topline revenue, all aspects of a business require technology-led, data-informed responses that are shaped by the CIO.

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Compounding this pressure is an uncertain global outlook, which is leading many companies to consider cost reductions—creating a double-edged sword for CIOs, who must prove the value that their technology expenditures are delivering.[4]

It is not simply about reducing spend; it's about finding the resources organizations need to drive innovation and create a new performance frontier, centered around a strong digital core, that drives growth and optimizes operations. These actions are part of the continuous, dynamic strategy that Accenture calls Total Enterprise Reinvention.[5]

Unlock better results with a focus on technology value

During the pandemic this paradox and balancing act was also evident, as CIOs responded strategically while also sharpening their pencils. While three out of four businesses took action to reduce their costs, just 4% focused on cost-cutting alone: 72% invested in growth-related actions at the same time.[6] As CIOs continue to drive innovation and improve resilience, they need new approaches for measuring, creating and communicating the value of their technology spending.

Many companies are using financial and technological disciplines, such as FinOps, Technology Business Management (TBM), lean portfolio management, cost optimization, value realization and more, in pockets of their business.[7] When these tools and initiatives are used in a more holistic fashion, CIOs stand to unlock greater value for the business overall and it makes it easier to communicate that value to the entire C-suite.

A framework for technology value

A framework for technology value

To update their operating model with a technology value lens, companies should consider aligning two pillars, which already exist in most organizations. The first pillar is a taxonomy of technology cost, which follows the principles laid out in TBM. Just as businesses rely on generally accepted accounting principles (GAAP) to standardize financial reporting, the TBM taxonomy provides an industry-wide approach to categorizing and reporting IT costs and other metrics that can be compared across companies.[8]

The second pillar is an agreed-upon framework of the business's priorities and associated metrics across the entire enterprise. This will include financial targets, such as revenue, profitability, productivity and more, broken down into the organization's own specific measures of business success.

This should also include non-financial goals in areas such as sustainability, talent, diversity and other key measures of corporate responsibility that don't always have a direct financial impact.

When these two pillars are intentionally aligned, the business, technology and finance departments can work collaboratively on their technology challenges and investments. (See figure 1.)

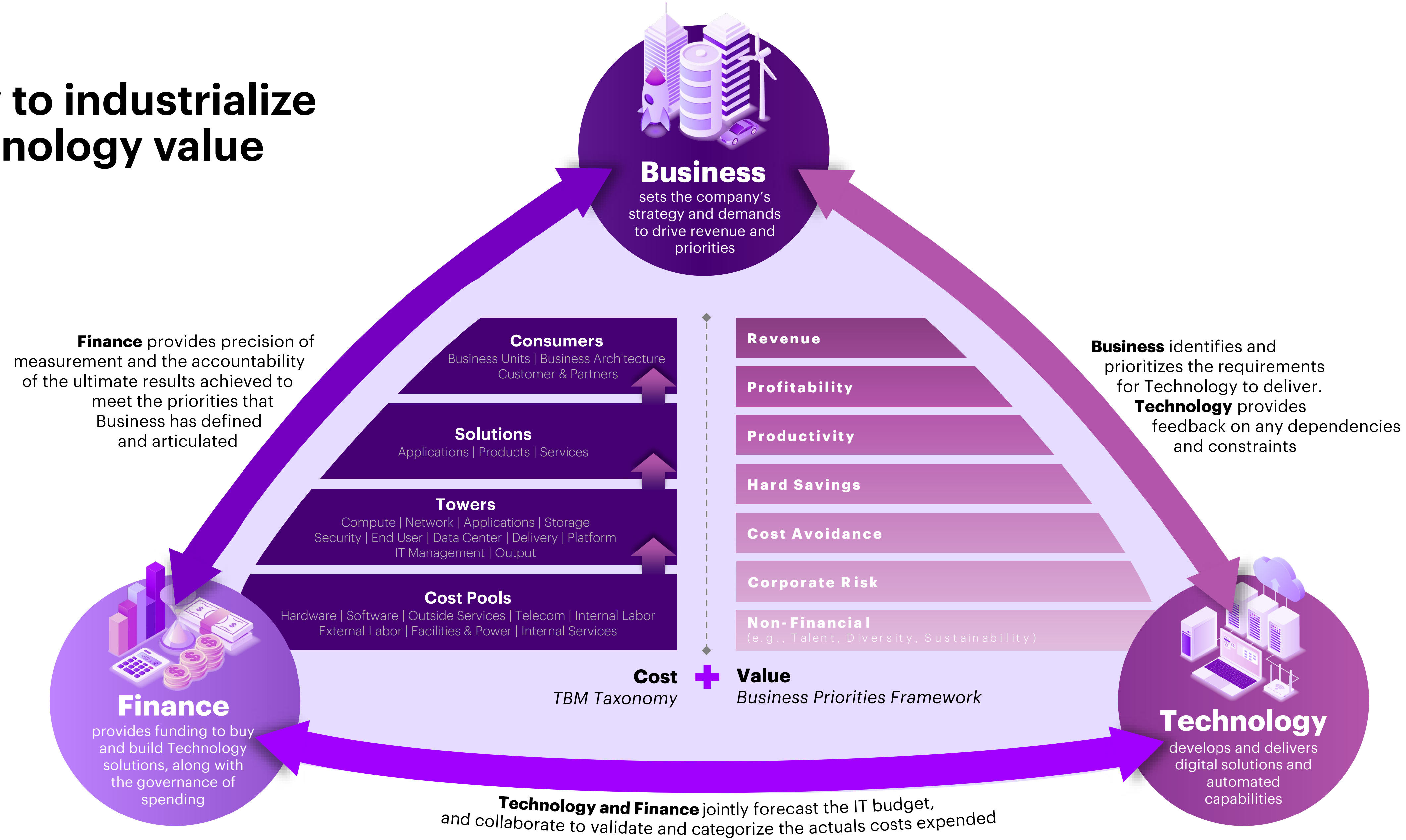
The CIO, chief financial officer (CFO) and other business stakeholders can build on their existing operations to develop shared teams who will make it easier for business, technology and finance to have clear, consistent conversations about the value the company needs.

By linking business benefits to the associated technology cost, companies can boost their transparency and strategic decision-making. Cross-functional communication also makes it easier for CIOs to demonstrate the business value being delivered by a company's technology investments.

It also helps the CIO to show how a company's foundational technology investment can deliver innovation and give the business impetus for transformation and reinvention.

How to industrialize technology value

Figure 1



Five actions to respond to the now

Right now, CIOs may feel obligated to work solely on immediate concerns rather than also devoting time to working with finance and the business to create a shared understanding of how to understand and measure technology investments. They are under renewed pressure to optimize their costs—while also finding more value. To drive innovation and transformation, they first need to free up funds that are currently used to "run the business."

Along with this, CIOs may feel they have already pulled many of the traditional levers to run their business as efficiently as possible and uncover more value: They are converting fixed costs to variable costs through cloud services. They are moving to product operating models through Agile and DevOps. They have consolidated their vendor spend. They have already picked the low-hanging fruit in portfolio optimization. And yet, the pressure to deliver better business value is unlikely to diminish in the near term.

This is the moment when CIOs need to focus on true value creation that will help their companies continuously reinvent themselves.

By industrializing their approach to technology value, they can define enterprise value metrics, drive more transparency around technology spending, and then use that transparency to make informed decisions on when and where to reduce, redistribute and expand technology investment.

In our experience, once a technology organization has improved the transparency of its enterprise value, it typically shifts its attention to reducing costs to free up funds to invest in innovation.

We've identified five priority areas for this. This is not a comprehensive list of all the essential moves CIOs can make to aggressively optimize their IT costs. Instead, these are the most valuable, relevant actions to begin to address the challenges technology leaders face now, which can yield results in the next six to 24 months. Additionally, we've identified these areas as most likely to ultimately drive value for businesses. CIOs can use a technology value framework to cohesively address these challenges.

01 Rethink the operating model

Implement better technology spend management

Many companies are working with product-based operating models: they focus on creating and managing products and platforms to generate ongoing customer value, rather than working on timebound projects. In the push to improve their digital cores and their agility, they are caught between legacy technology and migrating fully to AI, data and cloud. This leads to a problem of running two operating models and the associated data and technology ecosystem around them.

The result? Technology costs are rising at a time when CIOs are under increasing pressure to optimize spending. And while costs have increased, so too has the value delivered to the business—yet this added value might not have been properly communicated to leaders.

New operating models may have been poorly implemented without effectively tackling underlying costs. For example, third-party, agile offshore teams are put in place but high-cost senior management teams—which can be an inefficient buffer between product owners and delivery teams—are retained.

To overcome this challenge, companies should revisit their operating model with a "Tech Value" lens and better IT spend management strategies. Go beyond Agile and commercial relationships. Revisit product team structures, roles and responsibilities, and funding models. Use disciplines such as FinOps, TBM and more to connect the business benefit of every investment in technology with an agreed-upon framework. And put in place regular reporting that clearly communicates the business value of the organization's technology investments to the C-suite.

Case in point:
Accenture was asked to modernize a global enterprise's IT operating model while reducing its workforce costs. We reduced the cost of the IT operating model while implementing a product-based operating model. This resulted in a 40% total reduction in IT workforce costs, through a combination of consolidation, location and sourcing optimization, and operating model modernization.

02 Optimize cloud costs with FinOps

Get your organization collaborating on data-driven spending decisions

While most leading organizations have embraced cloud, many CIOs struggle to explain their increasing cloud expenditure and the value it delivers. In addition, 86% of companies report increasing the volume and scope of their cloud initiatives over the past two years, yet only 42% say they are fully achieving their expected outcomes.[9]

This is where a structured FinOps program can help. FinOps goes beyond cloud cost management to collate technology, finance and business consumption.

This helps companies bring greater financial accountability to managing the variable spend model of cloud and get the maximum value from their cloud investments. It enables distributed teams to make business trade-offs between speed, cost and quality. And it helps companies to reduce their costs and free up funds that can be used to reinvest in their technology innovation.

Working with cloud providers' tools and technology management tools such as Apptio, FinOps helps teams across the business, technology and finance departments collaborate on data-driven spending decisions.

Case in point:
Accenture helped a global bank assess its cloud capabilities at a time when cloud costs were rising significantly. Using FinOps, we improved the timelines for cloud cost reporting from one month to one hour and delivered nearly $55 million in savings over two years. FinOps is now embedded in all product architecture decisions and the bank's DevOps practices.

03 Make SaaS a competitive sport

Explore what suppliers can deliver for you

Software as a service (SaaS) is everywhere in a business, from an enterprise's core systems to the productivity tools used by individual employees. But SaaS inventory models are inefficient and hard to differentiate from third-party spend. They are often bought directly by the business, outside the CIO's control, which can result in software duplication while increasing tech debt, costs and security vulnerabilities. "All you can eat" licenses can result in vendor lock-in, minimizing a company's flexibility to improve its costs.

Whether you are negotiating initial SaaS deals with a new vendor or subsequent renewals, avoid the volume lock-in deals that turn variable costs back into long-term fixed costs. Challenge SaaS vendors to justify any increases. And build architectures that enable you to switch your SaaS solutions to different suppliers to create competitive tension.

When possible, seek to negotiate "early renewals", where a company renegotiates a new agreement mid-term. Companies get the most benefit from this—better pricing, concessions and terms—when they can demonstrate major planned growth with their supplier. For example, if a client had significant new demand for licensing in the short term and has a multi-year agreement in place, it may be more efficient to renegotiate the whole contract to unify pricing and terms.

Case in point:
A global manufacturer of industrial machinery asked Accenture to advise on a renewal worth $5 million annually. Costs had increased significantly in the previous three years. We analysed active license entitlements, evaluated unit pricing terms, and identified underutilized products while negotiating changes in price and discounts for new products. Overall, these enhanced terms led to a 23% reduction in the annual contract costs.

04 Clean up the architechture

Turn a major multi-year engagement into a light daily task

Few CIOs get excited by application rationalization; most view it as an unwanted, messy inheritance of past errors. And paybacks for application rationalization can stretch to more than five years, far more than the tenure of the average CIO.[10]

However, application portfolio optimization cannot be ignored. Agile architectures have created thousands of application and data services, many of which may be duplicative or obsolete. Ignoring app rationalization will ultimately constrain a company's business agility and significantly increase fixed costs.

Code refactoring, or clean-up, is a fundamental part of Agile software development. Apply the same thinking to architecture and to optimizing your spending in all categories. App rationalization needs to be a daily task, not a major engagement taken on every few years. CIOs should build the cost of app rationalization into their value streams, just as they build refactoring into their sprints.

Case in point:
Accenture was engaged by a food ingredients company to develop a new operating model for its technology function and evaluate its 2,000-strong application portfolio. We created a new IT governance framework to optimize its technology investments. This work identified 90 cost-reduction actions through re-platforming, consolidation, and decommissioning. These were worth a total of $80 million in IT savings and $32 million in saved labor hours.

05 Break the finance cycle

Match how you distribute your money to how you run your products

Although many companies have switched to a product-based operating model, corporate funding cycles have stayed the same. Agile teams might operate on biweekly or monthly sprints, yet they are funded from annual budgets that might only be adjusted quarterly, if at all.

For Agile to work efficiently on its shorter cycles, companies should consider adopting shorter finance cycles that are aligned to the business's core strategy. This will help with financial transparency on projects and flush out any minor initiatives that might not be delivering value to the business.

In many companies, there may also be capacity to reallocate inefficient legacy innovation funds that are unmoored from the business's central strategy and priorities. These often came about when budgets were more substantial and managers had more capacity for experimental, passion projects.

These are, of course, significant decisions. Organizations will need to have strategic discussions if they want to change their corporate funding cycles or reallocate funding from established Agile product teams. Any resulting cultural shifts will also need to be carefully considered.

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Conclusion

This is a singular moment for CIOs: they have an opportunity to rise to the challenge of helping to shape and lead an enterprise-wide strategy. It will give a company's business, technology and finance teams a shared understanding of how to set, measure and deliver value from technology.

With greater collaboration and communication across the C-suite, CIOs can bring a technology value lens to their operations. They can marshal their existing technology finance components and disciplines to respond to their business's most urgent challenges. And they can use this moment in the spotlight to demonstrate their business and technology leadership, and unlock true value across their enterprise.

How Accenture can help

Our Technology Value services interlock financial and IT disciplines such as FinOps, Technology Business Management, cost optimization, lean portfolio management and more, to help organizations better measure and maximize their technology investments. This gives them the transparency they need to define value, optimize costs and enable their enterprise reinvention.

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About Accenture

Accenture is a leading global professional services company that helps the world's leading businesses, governments and other organizations build their digital core, optimize their operations, accelerate revenue growth and enhance citizen services— creating tangible value at speed and scale. We are a talent and innovation-led company with 738,000 people serving clients in more than 120 countries. Technology is at the core of change today, and we are one of the world's leaders in helping drive that change, with strong ecosystem relationships. We combine our strength in technology with unmatched industry experience, functional expertise and global delivery capability. We are uniquely able to deliver tangible outcomes because of our broad range of services, solutions and assets across Strategy & Consulting, Technology, Operations, Industry X and Accenture Song. These capabilities, together with our culture of shared success and commitment to creating 360° value, enable us to help our clients succeed and build trusted, lasting relationships. We measure our success by the 360° value we create for our clients, each other, our shareholders, partners and communities. Visit us at **www.accenture.com**

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Accenture's Technology Strategy & Advisory practice helps chief information officers, chief technology officers and the rest of the C-suite harness technology and innovation to shape their technology visions, execute their digital transformation journeys, and reinvent their businesses to create exceptional, sustainable value from their technology investments.
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