

IT Innovation at a Crossroads

A.T. Kearney evaluates role of information technology in business innovation

Innovation remains a key growth driver for business, yet many companies struggle to optimize investments for innovative business technology projects. In a recent A.T. Kearney survey to determine what role information technology plays in the pursuit of innovation, we found that companies that focus on IT innovation, and break through certain barriers, are able to use IT to create real value. Even in bad economic times, it makes sense to invest in IT innovation.



Since early 2009, A.T. Kearney has studied companies worldwide to assess success factors in implementing IT innovation (see sidebar: *About the Study*). IT innovation refers to any “game-shifting” strategy, enabled by IT, that allows a company to create sustainable competitive advantage. Among the major findings:

- Most companies recognize IT innovation as vital across their businesses, products and services.
- Execution does not always match intent: Several barriers and the economic downturn are hindering investment in IT innovation.
- Three areas—customer service, analytics and the supply chain—rank highest in IT innovation importance.
- Company size is not important: Smaller and medium-sized firms are as likely as large firms to implement successful IT innovation initiatives.
- Top IT innovators exhibit key characteristics in the areas of organiza-

tion, effectiveness, and innovation and growth.

Importance of IT Innovation

While IT departments must certainly provide “basic” services, such as a reliable and efficient infrastructure and applications, true business-technology innovation is only possible if the CIO and IT managers understand and share the goals of a company’s innovation agenda. The CIO agenda focuses on three areas where IT adds to shareholder value—IT operational excellence, business enablement, and innovation (see figure 1 on the following page). By segmenting technology-related initiatives in this way, management can vary its approach to sponsorship and measurement and define its value expectations based on the type of project. The majority of study participants rank IT as “important” or “very important” as part of a strategy for differentiation against competitors.

About the Study

In 2009, A.T. Kearney sponsored a global research project to better understand how technology innovations are incorporated into companies’ business strategies, the decision-making around these strategies, and business issues related to the adoption and implementation of technology. Survey respondents included A.T. Kearney clients, board members and senior-level executives from European and American companies with typically \$500 million or more in revenue. The executives, all directly involved in their companies’ IT investment decisions, were asked about their IT innovation priorities, strategies and investment direction.

The study had a sample size of nearly 150; with half of the participants from North America and the other half from Europe and the Middle East. The research focused on companies across five key industries: automotive, communications and high-tech, consumer products and retail, financial institutions, and process industries (energy and chemicals).

What's interesting is that while 67 percent of CEOs consider IT very important, the heads of their respective IT units are less enthusiastic: 81 percent rank IT as important, while just 25 percent agree with their CEOs and rank it very important. Also, 80 percent of companies consider the results from their IT innovations as mainly positive; of these, 18 percent are "very positive" and 16 percent are "neutral" about the results achieved so far.

Overall, more than 84 percent of companies contend IT innovation has become more significant over the past five years, yet investments in IT innovation have declined over the past

10 years. It seems the baggage of the past—complex IT architectures, incompatible applications, poor access to data and an overly technical organization—is preventing investments in game-changing IT. Instead, the IT organization is heavily focused on cutting costs and putting out fires.

Most executives say it is difficult to allocate appropriate resources to strategy and IT innovation. Our study indicates that money spent on IT innovation is moving away from innovative business solutions, and toward maintaining the day-to-day IT environment. In fact, only 14 percent of IT investment is allocated toward

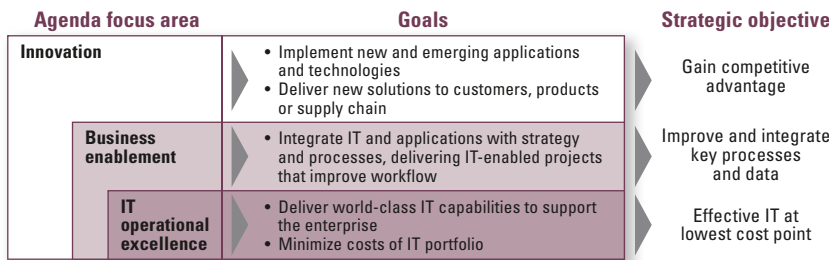
innovation, continuing a steady drop in each of our studies over the past decade (see figure 2).

Execution and Barriers to IT Innovation

IT is not enabling enough growth and innovation to the degree desired or necessary in today's economy—with a large number of companies rating the delivery of IT services and IT innovation as far less than optimal. Instead of driving innovative business-technology projects, IT is relegated to the role of order taker, buried under a large volume of small operational enhancements. Increasingly, executives see IT as a "keep the lights on" function rather than an innovative business partner. In fact, most innovative ideas around IT and technology are coming from outside of IT—and IT departments are considered "blockers" of progress and growth as a result of inadequate delivery.

Some specific barriers include lack of effective enterprise integration across the business and IT, limited incubator environment and culture, and poor business cases to support

FIGURE 1: The IT innovation agenda



Source: A.T. Kearney

FIGURE 2: IT innovation investment over the past decade

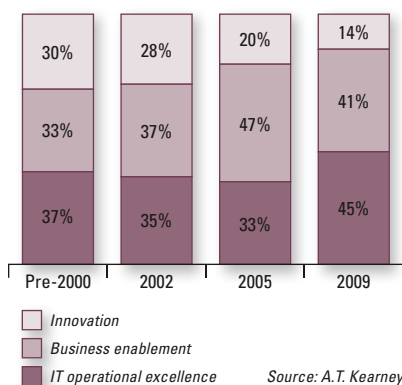
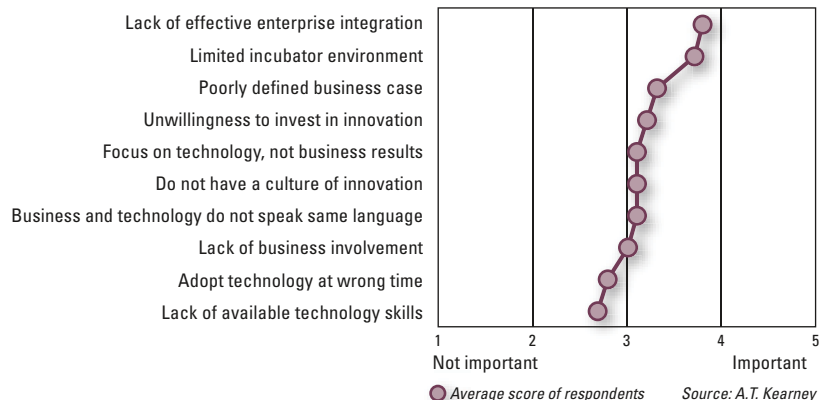


FIGURE 3: Barriers to IT innovation



IT innovation and commercialization efforts (see figure 3).

IT Innovation and Growth

IT innovation can make valuable contributions to individual departments—contributions that could have a positive impact on the company’s overall cost position and growth from sales. Although IT projects are often aimed at reducing “hard” costs, our findings indicate a correlation between successful IT innovations and overall growth. One correlation is sales: Companies

with higher sales growth tend to rate the value of innovation higher. Of companies with 10 to 20 percent growth in sales, 85 percent indicate the positive value of technology innovation (see figure 4). Although it is difficult to draw an exact monetary relationship between IT innovations and a company’s growth, individual programs and activities point to the value of IT.

Our findings also reveal that size alone is no guarantee of success in IT innovation. Both small companies with revenues of less than \$500 million per year, and large companies with more than \$10 billion in revenues, report positive results from their IT innovations (see figure 5). Of companies that boast established IT innovation roles and organizations, 75 percent generate disproportionately better results from their innovations.

IT innovation is particularly important in three areas: customer service, analytics and the supply chain. The benefits of IT innovation are primarily associated with customer-facing areas and to a lesser extent with back-office areas such as R&D (see figure 6).

These customer-facing areas are most interesting to the industries that rated innovation the highest—pharmaceutical and healthcare, financial services, and consumer products and retail.

IT Within Customer Products and Services

IT innovation also plays a role in developing and supporting products and services, depending somewhat on the industry and the product. More than half of the companies (57 percent) consider IT a central component of their products or services, while another 27 percent say IT plays at least a minimal role, for example, with technology used as an online distribution channel (see figure 7 on the following page).

The IT component of product development is still considered to have a relatively low impact, while IT’s contribution to distributing products and services ranks considerably higher. From the survey results, and our experience with clients, we expect future IT innovations to be instrumental not only in functions and processes but also in actual products.

FIGURE 4: Sales growth versus results of IT innovation

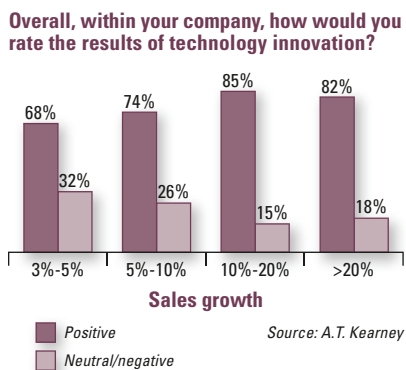


FIGURE 5: Successful IT innovation companies by revenue

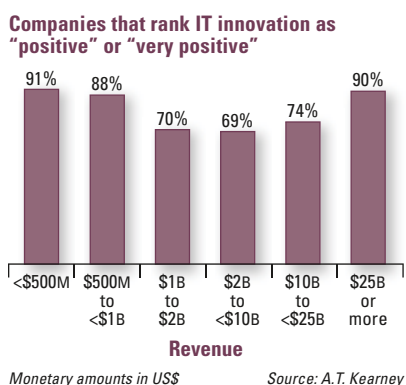


FIGURE 6: Importance of IT innovation by function

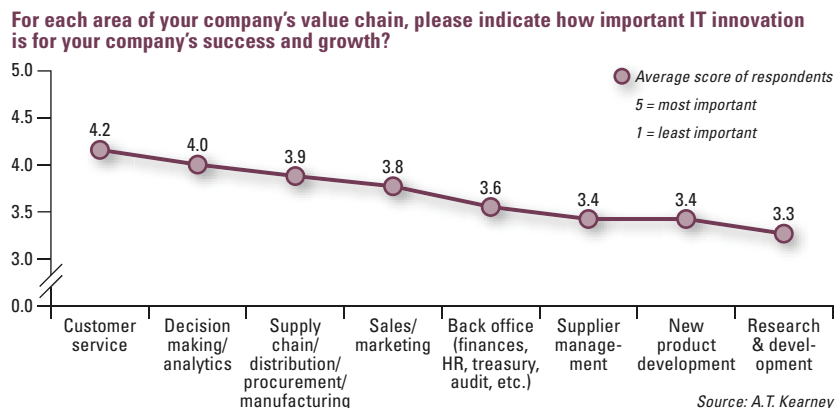
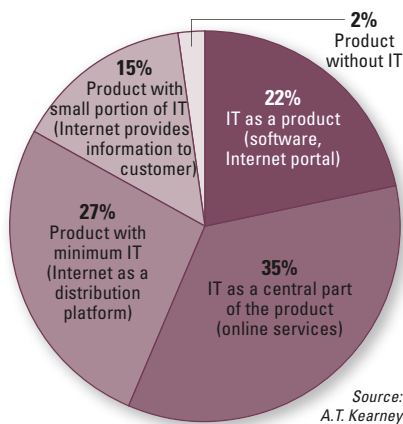


FIGURE 7: Extent of IT in products or services



Characteristics of Top Innovators

It was clear from studying these companies that IT innovation does not happen by accident, but rather by design and concentrated execution. Top IT innovators exhibit key characteristics in the following three areas:

Organization. Top companies make specific organizational and operating decisions to foster IT innovation by appointing a specific position or

group to accelerate the process. Approximately 60 percent of the respondents who had a positive view of IT have created this position, which is ensured a seat at the business table. Innovative companies improve the perception of the IT department, and structure innovation as a partnership with both internal and external parties.

Effectiveness. Innovative companies understand the need to get the basics right and that IT delivery must improve before IT can be viewed as a true innovator and business partner. Innovators do not view offshoring alone as the answer to cost reduction—they confront the challenges (reams of data, time wasted on day-to-day activities) and reduce IT complexity to cut costs and increase growth.

Innovation and growth. Innovators recognize that the economic downturn provides an opportunity to capture market share through IT innovation. Innovative IT projects are clearly segmented from the rest of the IT portfolio and sponsored by a non-IT executive. IT innovation is tied to

business objectives and results, and requires solid business justification that includes incubation, commercialization and quick wins. Innovative companies monitor emerging technologies and the technology landscape to optimize the timing of investments and increase the chances for successful commercialization of technology-driven products and services.

Outlook

In the current economic climate, IT innovation programs are at risk of being slashed as companies try to cut costs. However, our findings suggest IT decision-makers should see the current market as an opportunity to communicate to business leaders that IT innovation management is not a purely technology-focused function or a purely IT-internal “think tank.” Rather, the economic benefits of IT innovation can be realized and showcased for the entire company. Even in bad economic times, there is great value to investing in IT innovation.

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A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO-agenda issues to the world's leading corporations across all major industries. A.T. Kearney's offices are located in major business centers in 36 countries.

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