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WHITE PAPER

JOINING THE DOTS

Using value chain mapping to understand the links between IT and the business

Introduction

To be able to demonstrate criticality and relevance to the business, IT departments need to know where and how they are adding value to customers. In a digital business landscape that is being shaped by advancements in mobile, social media, the Internet of Things, big data, and cloud services, the line between IT and business delivery is disappearing. The 'IT department' is no longer a service provider that sits outside of 'the business'. Whether it's a major financial institution, a multi-national life sciences organisation, or a government department, it's difficult to find a single business process or customer interaction that is not touched in some way by technology.

And yet, many IT departments still struggle to establish effective partnerships with the business, and increasingly some are bypassed by business leaders looking for off-the-shelf, cloud-based solutions. They need a way to demonstrate clearly how the services that they provide deliver business outcomes. How can the services provided by IT enable and improve the business's ability to ship quality products, delight customers, or drive shareholder value?

This white paper explains how to 'join the dots' between business outcomes and IT delivery using value chain mapping. The process should provide a tool to help improve strategic decision making for the organisation as a whole through demonstrating how IT teams deliver customer value.

Value chain mapping allows businesses to identify and visually present the links between IT capabilities and components, and business outcomes. This may sound like an obvious relationship, but many organisations fail to make it explicit. And only when there is an explicit, shared understanding of how IT enables and drives the business, can you improve the strategic decisions taken around IT investments in innovation, operational efficiency, and continuous improvement.

This white paper leads you through the four key steps that can be taken to map value chains (shown in Figure 1), as well as identifying the critical success factors that will determine whether the result is truly transformational or simply an interesting diagram.

It's a big undertaking, but getting business and IT leaders to engage with each other to understand the links between technology and business success will deliver dividends for the whole organisation.

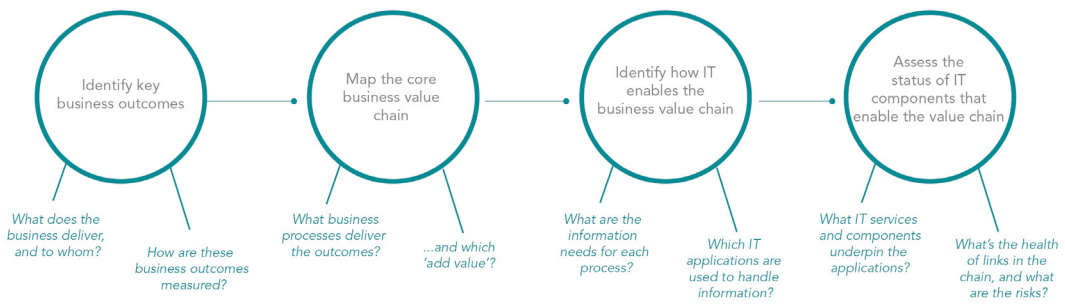


Figure 1: How to join the dots between the business and IT [Source: Mason Advisory, 2016]

Why mapping can help

Take the example of a manufacturer delivering a particular product for an end customer. There are a number of core business processes that will combine to deliver value for the customer, ranging from the processes to capture and initiate an order through to manufacturing, shipping and delivery.

It's clear that there are a number of IT services supporting the steps within these business processes. What's less clear is exactly which IT services are critical to which steps – in other words, how is the technology directly enabling value to be delivered to the customer. 'Joining the dots' by overlaying IT services onto business value chains develops a detailed view of exactly how IT drives delivery of outcomes for the key stakeholders of an organisation.

Objectives and priorities within IT are often vertically aligned to 'service towers' rather than being viewed across the enterprise. Building a clear understanding of how IT capabilities and services enable business outcomes provides a rich tool that will support strategy development, prioritisation, planning and decision making across a number of areas including those outlined below.

- **Investment in new or enhanced capabilities:** application of a value chain view to portfolio planning and prioritisation enables funds to be targeted at those areas that will have most impact on customer value.
- **Managing total cost of ownership (TCO):** total costs associated with delivery and maintenance of IT capabilities can be considered in the context of the benefits that they are delivering for the organisation. This provides an important check when considering changes that will drive increases to TCO and also for evaluating potential risk to customer outcomes when considering options for reducing overall IT operational costs.
- **Continuous improvement and elimination of waste:** performance challenges, overlaps, duplication and gaps across IT capabilities can be viewed based on value chains and customer outcomes. Having the ability to analyse IT capabilities and components within the context of the business processes that they enable will identify areas of waste and highlight opportunities to rationalise, improve and deliver a foundation for business transformation.
- **Managing the availability of IT capabilities:** IT incidents and problems can be assessed based on lost business opportunity resulting from the disruption they cause. With this view, incident analysis can be based on understanding the extent of the impact on the outcomes, such as product shipped or sales revenue generated, and so can efforts to investigate and eliminate root causes.
- **Monitoring delivery of outcomes:** understanding of the key outcomes that deliver value to customers and how successful achievement of these outcomes is measured enables reporting of *IT* performance in the context of the impact on *business* performance. This can enable a step towards a business-focused CIO dashboard with performance indicators based on customer-centric business measures.

So how do you join the dots?

While 'joining the dots' may sound simple, the process requires an understanding of the few most critical outcomes delivered for customers, married with a detailed understanding of the technical components and processes that enable those outcomes. Knowledge of all of the elements that make up the value chain map will exist within the different areas of the organisation, but to join the dots they must be brought together to create a shared understanding of how they work in unison.

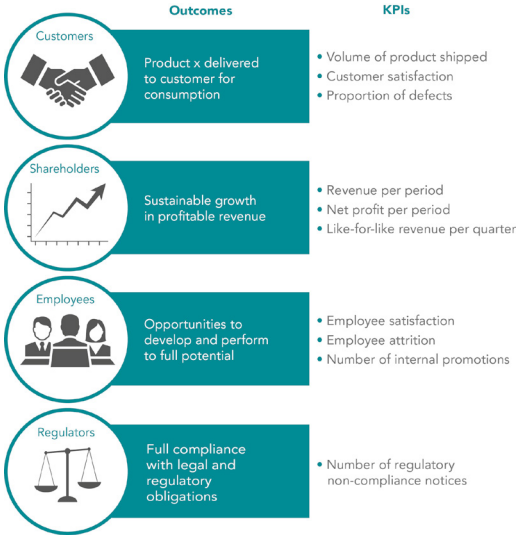
The process to create and use value chain maps will vary from business to business depending on maturity, culture and current ways of working. However, there are four steps that form a solid starting point for all organisations (as illustrated in Figure 1).

1. Identify key business outcomes. The process starts with confirming a clear, shared understanding of:

- the most critical outcomes that an organisation delivers
- who it delivers them for
- and how they are measured.

These may seem obvious questions, but it is common for many people working within an IT organisation to feel distanced from the core business without clear visibility of the value that they deliver for the ultimate customers of the organisation. The starting point for creating your map involves working through some simple questions that encourage thinking like a customer; this develops an appreciation of what outcomes are most critical to them and what results will delight them. In the remainder of this mapping, we use the example of the manufacturer trying to deliver customer value, although the steps are equally applicable to any of the business outcomes in Figure 2.

Figure 2: Identifying business outcomes [Source: Mason Advisory, 2016]



2. Map the core business value chain. With an understanding of the key outcomes being delivered and how they are measured, the next stage is to identify and map the core value chains that deliver them. A value chain can be defined as the chain of business processes that result in delivery of value for the customer. During this stage of the process, it may be necessary to break down the end-to-end enterprise value chain into smaller value chains in order to map the business processes within each. There are also likely to be multiple different levels of business processes to be mapped, starting from a high level with a single box to represent an entire business process, working down to a level where the detailed activities that make up each process are captured. While the appropriate level of mapping will vary by business and by value chain, the focus should be on capturing each of the discrete business processes involved in value delivery.

Figure 3: Map the core business value chain [Source: Mason Advisory, 2016]

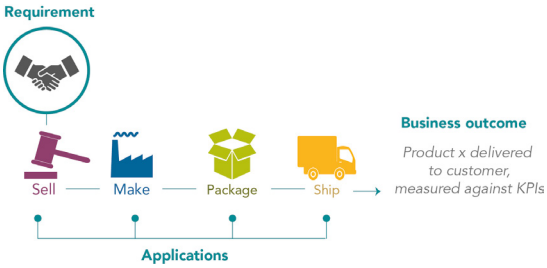
3. Identify how IT enables the business value chain. Regardless of organisation type or industry, the majority of business processes are enabled in some way by access to, or processing of, information through the use of technology. Although IT is often viewed as an 'enabling' service that does not directly add value to end customers, technology is an increasingly foundational part of delivering business outcomes and should be considered as part of the value chain. In some sectors, such as online retail, customers interact directly with IT systems to realise value, while in others, such as manufacturing or in-store retail, IT systems are used by people working to deliver value to the customer. Either way, there are critical dependencies on IT and none of the businesses could deliver value to the customer without it.

So, once there is a clear understanding of the business processes that make up the business value chain, the next stage is to identify the IT that allows those processes to take place both directly and indirectly. Working through some structured questions around how participants access, process and use information to deliver outcomes should allow organisations to identify the critical IT capabilities that are relied on to add value at each stage. Typically, these will

be identified as applications and will fall into two broad categories: those applications that are specific to a particular business process and those that are used throughout the enterprise to support delivery across the organisation. Exploring this relationship provides a powerful opportunity for those who focus on delivering and supporting IT capabilities to engage colleagues from across the organisation in a conversation about how they use technology.

Valuable insights into user experience, identification of opportunities for improvement, and a better sense of shared purpose should emerge from this dialogue.

Figure 4: Identify how IT enables the value chain [Source: Mason Advisory, 2016]



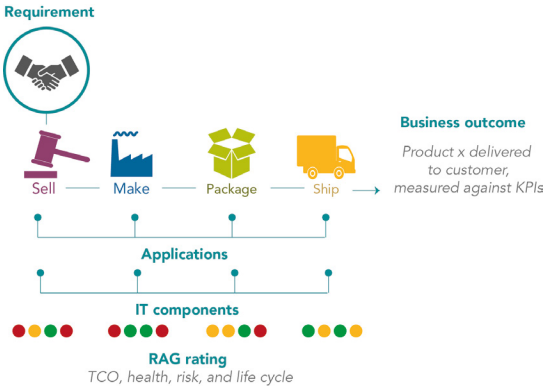
4. Assess the status of IT components that enable the value chain. So far, the exercise will have delivered a shared view of the business value chains, the business processes within them, and the IT capabilities that enable them. To complete the map, links to all of the downstream components and processes that are required to deliver each IT capability should also be identified and represented. This means building a picture of the underlying hardware, software and infrastructure components that deliver each IT capability, along with the management processes that enable operation, maintenance and changing of them.

As with the IT capabilities, there will be components that are dedicated to delivery of a particular application and there will be a number of enterprise-wide components which are shared across multiple applications. By identifying and mapping these links, organisations end up with a rich view of value delivery all the way from individual IT components to the outcomes provided for the customer. The approach and process for identifying and mapping IT component dependencies and links will vary depending on the organisation and level of IT service management (ITSM) maturity.

Information required to complete this mapping may be contained within an enterprise configuration management database and IT asset inventory. There may also be tools available within the environment that can support the discovery and mapping of links at IT component level. Regardless of how the data is gathered, this stage completes the value chain map.

The full value chain map provides a powerful framework against which you can apply multiple different views to drive strategy development, prioritisation and decision making. Many organisations set their priorities and make decisions on specific technical and service domains rather than overall business outcomes. This can result in IT services that are critical to delivery of business outcomes suffering from under-investment, operational expenditure being cut in areas that pose a risk to the business that is not fully visible or understood, or a missed opportunity to apply technology more effectively.

Figure 5: Full value chain mapping [Source: Mason Advisory, 2016]



By layering views such as cost, risk, life cycle and health on a value chain map (as shown in Figure 5) businesses can gain insights into performance, opportunities, and areas for concern relative to the outcomes and value being delivered for customers.

This provides the basis to set strategy, undertake investment planning, and agree priorities based on a detailed knowledge of the organisation's as-is IT capabilities against the outcomes and value to which they contribute.

What next?

The concept of aligning IT capabilities to the business processes and the outcomes that they deliver may sound simple, but Mason Advisory has seen time and again how businesses can struggle to unpick the activities that underpin their core operations.

Viewing an organisation's activities across a value chain and focusing on contribution to customer value can take a significant change in perspective, particularly for those who are used to a functional view of the world. The goal of engaging in value chain mapping is to create a framework and a shared understanding that can be used to support a shift in the way leaders set priorities and makes decisions. To realise the full potential of this method requires cross-organisation support and the active involvement of both technology and business experts across different areas of the business.

There are some critical success factors that will determine whether the result of a mapping exercise delivers something that will be truly transformational. Consideration of the following success factors when initiating a value chain mapping exercise will improve the chances of delivering an enduring impact rather than something that sits on the shelf.

Sponsorship. In common with any organisational change initiative, having strong and active sponsorship from the senior executive team is important to improve the chances of a successful outcome. Value chain mapping exercises will need to draw resources from across the whole organisation and they are likely to challenge current assumptions and attitudes that are deeply embedded. It is important to have senior sponsors who understand the power of taking a value-chain-aligned view to enterprise decision making, and who are committed to actively participate in creating an environment that is receptive to change.

Cross-business participation. Buy-in and participation from teams and individuals representing all processes and IT capabilities within the value chain is important. Without it, the exercise will lose impact and will run the risk of becoming an academic exercise run from a limited perspective of a particular function or silo.

Start small. Undertaking this kind of mapping across all value chains within an enterprise is a significant commitment that would consume a large amount of time and effort. Taking on such an ambitious objective as a single big project introduces a risk of consuming large amounts of resources prior to any impact being demonstrated. An Agile approach that breaks down the value chains of an organisation into small yet meaningful packages that can be completed within short 'sprints' of activity will reduce the time it takes to show results and will encourage further iterations based on sponsor and stakeholder feedback as lessons are learned.

Objectivity. The process for creating value chain maps will involve participants representing a number of different processes, services and functions that span the organisation. Each of these participants will bring their own expertise and perspective on how the different parts of the chain contribute towards delivery of value. With such a diverse team bringing potentially strong and deeply embedded views on how the organisation works and what constitutes value delivery, it is important to facilitate the process with objectivity. Having someone who can ask objective questions and challenge current assumptions will provide some protection against the risk of reverting to functional thinking and will help to maintain the focus on customer value.

Change management. If successful, the value chain mapping exercise will deliver insights that will enable a shift in the approach to strategy, planning and decision making across IT. Going through the process to create a detailed and accurate value chain map is just one part of enabling this transition. Making the shift to embed a value-chain approach will require a change in attitudes, governance frameworks and, possibly, organisational structure. Consideration should be given at the outset to how value chain mapping will be used by the organisation, who will be responsible for maintaining the outputs, and what the roadmap of change looks like to support the introduction and embedding of the approach.

Conclusion

Joining the dots between IT and the outcomes that are delivered for customers is an important step towards adopting a new mindset that accepts IT as a critical, integrated part of the business. The joined-up thinking that is driven through this process will help organisations improve the way they make decisions about IT investments, costs and priorities; and – if embraced and bought into across the organisation – will ultimately support its ability to deliver increased value.

About Mason Advisory

A simple approach to complex challenges: Mason Advisory is an IT consultancy that does things differently. We're experts in IT who match technology know-how with commercial and business sense.

Businesses come to us because we solve complex business challenges through intelligent use of IT. We're here to help clients set their strategy and then deliver on those decisions.

And because we're independent, you know you can have confidence that our conclusions meet your needs. For 20 years, organisations of all sizes have trusted our consultants to deliver IT with an impact.

Contact us

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