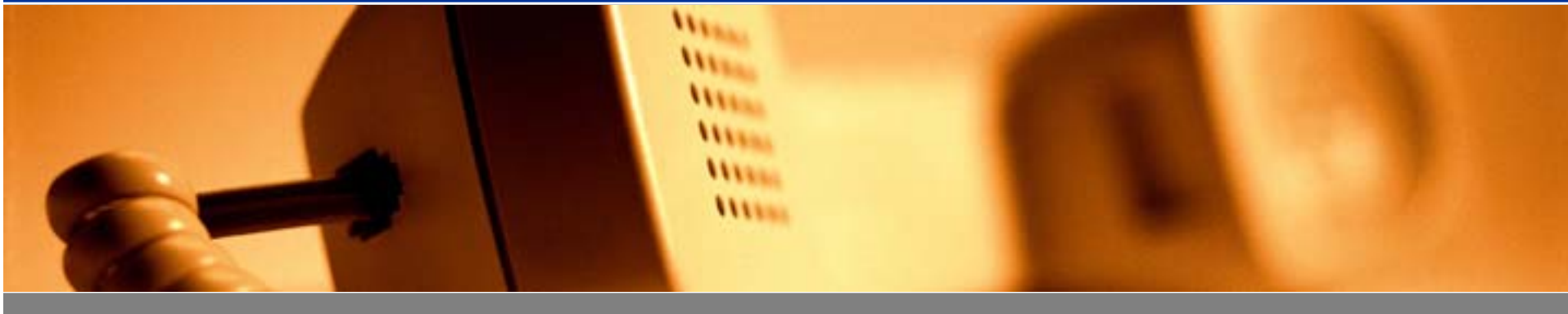


Return on IT Assets



Michael Smith

Key Issues

- Why Executives focus on Return on Assets
- Why ROI for IT Investments is not enough
- How Return on IT Assets Completes the picture
- How Return on IT Assets is calculated
- How to improve your Return on IT Assets

Why Business Executives focus on Return on Assets

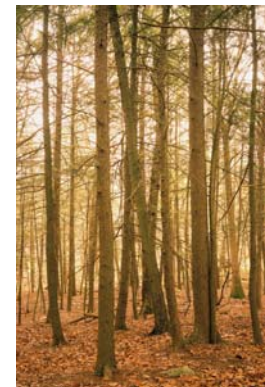
- The importance of ROA varies by industry:
 - Software, Entertainment, and some services based industries do not require significant assets to be successful
 - Capital intensive industries like: Automotive, Oil and Gas, and Transportation do
- Financial analysis use ROA to assess how efficiently management can squeeze profit from assets regardless of size.
- Business executives are rewarded by financial analysts for efficiently utilizing assets in good times and bad (see *IndustryWeeks 500 Best Manufacturing Companies*).

Industry	2003	2004	2005
Financial Services	2.3	3.9	5.4
High Tech Mfg.	3.7	8.7	11.1
Pharmaceutical	13.0	9.8	7.3
CPG	7.2	10.2	9.2
Retail	4.6	6.0	5.2
Utilities	4.2	3.9	2.9
Transportation	3.4	4.1	6.2

Why ROI for IT Investments is not Enough

Effective IT Management Requires Looking at both the “Forest” and the “Trees”:

- ROI analysis for individual investments assesses financial viability for specific investments (the Trees)
- Return on IT Assets measures how effectively all of your IT investments contribute value (the Forest)



How ROITA Completes the Picture

Example – Grid Computing

Case Study

Highlights Company Sun Microsystems Inc.

Industry/ Market Technology/ Hardware / Software / Networking

Key Solution Requirements

- Increase ROA for existing systems by increasing after hours CPU utilization and application throughput
- Prove the business benefits of deploying a global grid of computing resources
- Identify best candidate applications for grid computing
- Demonstrate negligible user impact

Key Solution Benefits

- ROA for the business, eliminating approximately \$50,000 in capital, and lower TCO
- by freeing \$20,000 in annual support expenses for other uses
- Application total throughput increased by nearly 50 percent
- Increased after hours average CPU utilization, increasing system ROI
- Methodology and prioritized list of applications for migration to grid
- Negligible user impact — no change in the number of related help-desk tickets

How to Calculate Return on IT Assets

Return on IT Assets (ROITA) calculation:

E = EBIDTA (available for publicly traded corporations)

ITA = IT Assets (capitalized hardware & software)

y = Current year

$$\text{ROITA} = E_y \div \text{IT}A_{y-1}$$

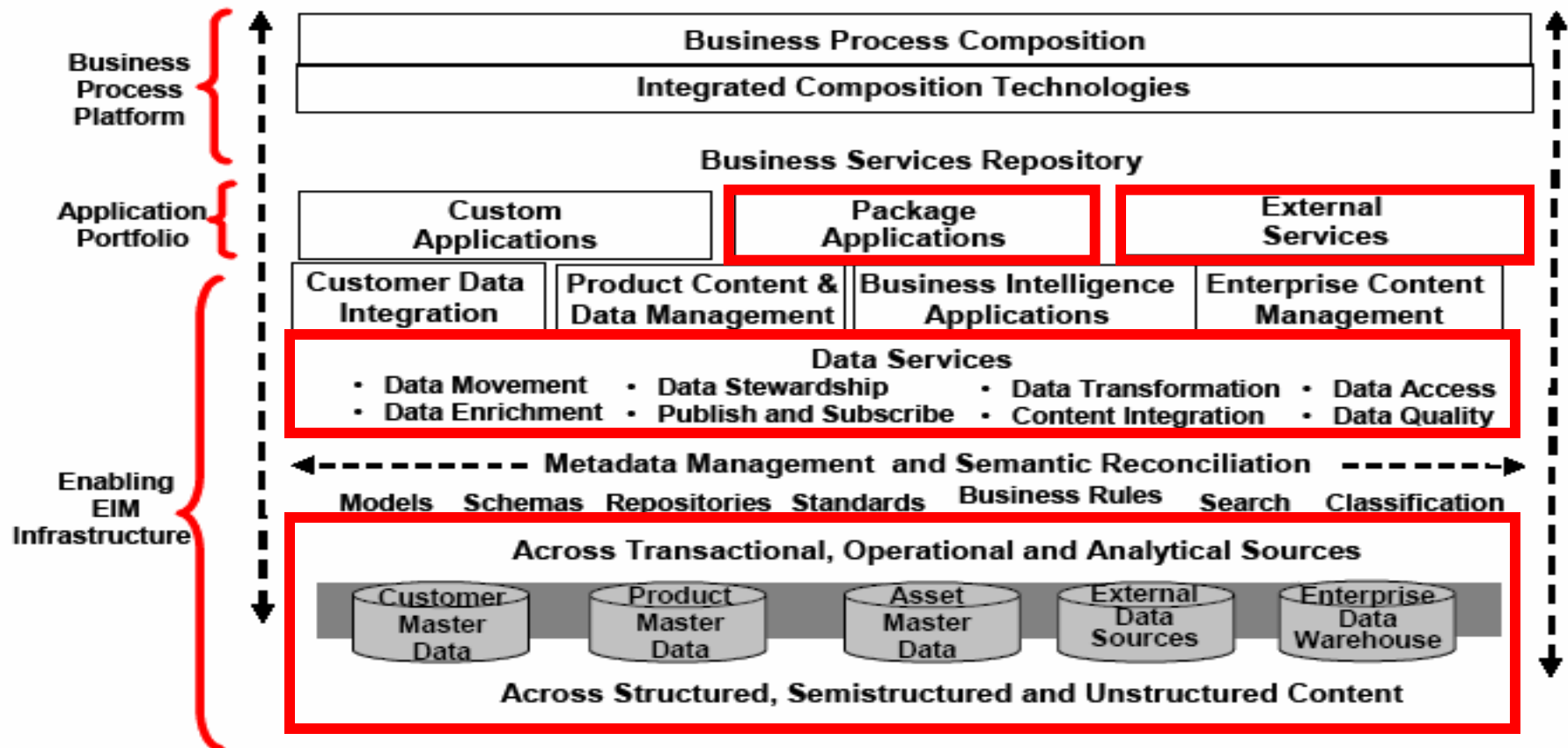
Alternatively:

R = Revenue

$$\text{ROITA} = (E_y \div R_y) \times (R_y \div \text{ITA})$$

How to Improve Your ROITA Enterprise Architecture

Figure 1. The EIM Reference Architecture



Source: Gartner (September 2005)

How to Improve your ROITA

Develop a Portfolio Approach

High-Level Business Aspects

Aggregate Measures

Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

ROITA by Business Function

The Gartner Business Performance Framework

Demand Management Primes

Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

Market Responsiveness	Target Market Index	Market Coverage Index	Market Share Index	Opportunity/Threat Index
	Product Portfolio Index	Channel Profitability Index	Configure-ability Index	
Sales Effectiveness	Sales Opportunity Index	Sales Cycle Index	Sales Close Index	Sales Price Index
	Cost of Sales Index	Forecast Accuracy	Customer Retention Index	
Product Development Effectiveness	New Products Index	Feature Function Index	Time to Market Index	R & D Success Index

ROITA by Business Function

The Gartner Business Performance Framework

Supply Management Primes

Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

Customer Responsiveness	On-Time Delivery	Order Fill Rate	Material Quality	Service Accuracy
	Service Performance	Customer Care Performance	Agreement Effectiveness	Transformation Ratio
Supplier Effectiveness	Supplier On-Time Delivery	Supplier Order Fill Rate	Supplier Material Quality	Supplier Service Accuracy
	Supplier Service Performance	Supplier Care Performance	Supplier Agreement Effectiveness	Supplier Transformation Ratio
Operational Efficiency	Cash - Cash Cycle Time	Conversion Cost	Asset Utilization	Sigma Value

ROITA by Business Function

The Gartner Business Performance Framework

Support Services Primes

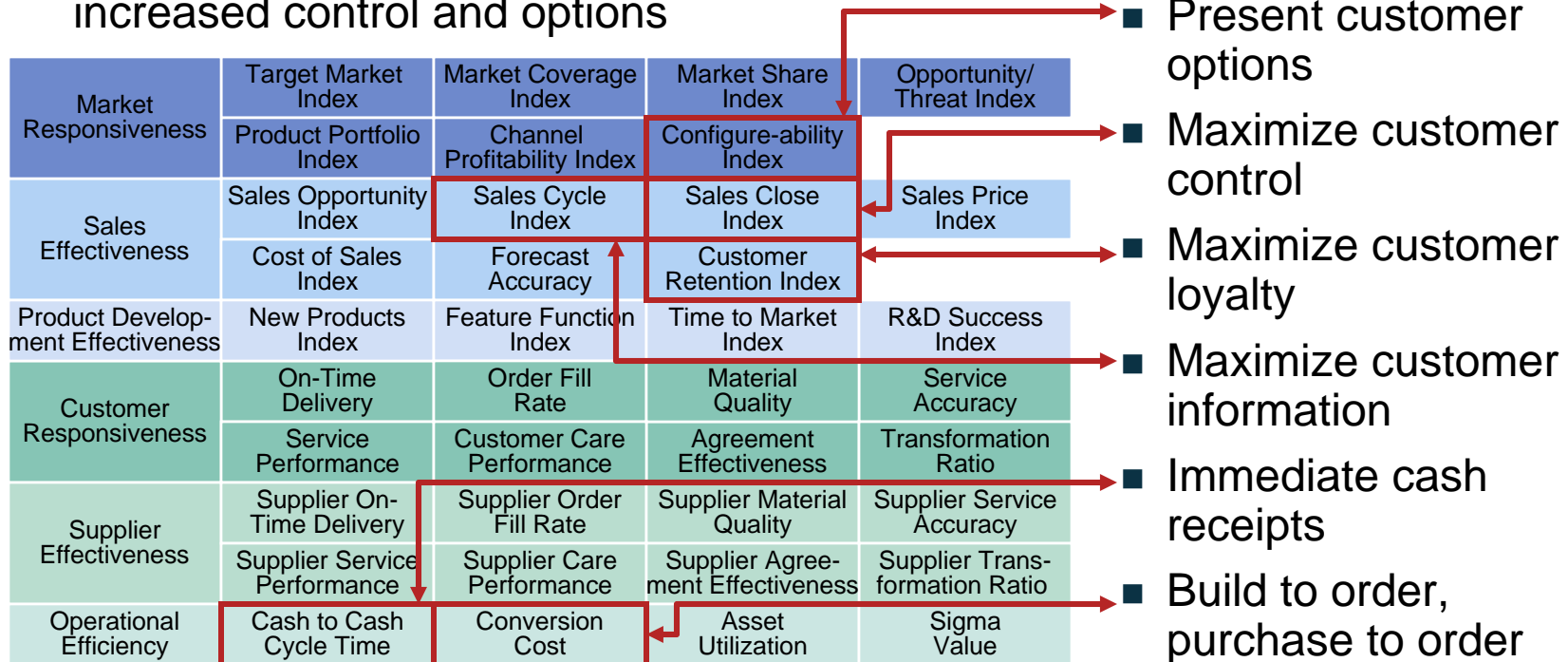
Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

Human Resources Responsiveness	Recruitment Effectiveness Index	Benefits Administration Index	Skills Inventory Index	Employee Training Index
	HR Advisory Index	HR Total Cost Index		
Information Technology Responsiveness	Systems Performance	IT Support Performance	Partnership Ratio	Service Level Effectiveness
	New Projects Index	IT Total Cost Index		
Finance & Regulatory Responsiveness	Compliance Index	Accuracy Index	Advisory Index	Cost of Service Index

Map the Business Strategy to Objectives and then to Performance Measures

- **Business Strategy:** Market growth
- **Business Objectives:** Improve customer satisfaction by offering increased control and options

Identify Performance Measures to Monitor Business Success:



Essentially Dell's Mass Customization Process

IT Maps its Strategy to the Business

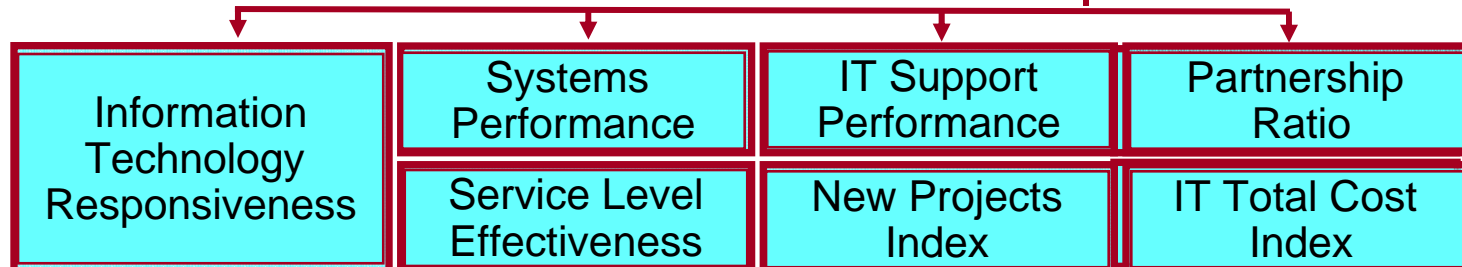
Establishes Objectives and Performance Measures

- **IT Strategy:** Establish Alignment & Credibility with the Business
- **IT Objectives:** Propose a Web-based order-fulfillment system to meet business needs

Market Responsiveness	Target Market Index	Market Coverage Index	Market Share Index	Opportunity/Threat Index
	Product Portfolio Index	Channel Profitability Index	Configure-ability Index	
Sales Effectiveness	Sales Opportunity Index	Sales Cycle Index	Sales Close Index	Sales Price Index
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Identify Performance Measures to Monitor IT Contribution:

- System performance
- IT support performance
- Service-level effectiveness
- Partnership ratio
- New project index



Recommendations

- Categorize your Enterprise Architecture (IT Infrastructure) by risk and agility factors
- Buy vs. rent based on the risk of obsolesces (rent high risk, high return IT investments)
- Develop a portfolio approach for managing your Enterprise Architecture based on business processes supported (the BPF)