

Executive Communication Best Practices

Building confidence to ensure journey success

Virtualization and cloud solutions create a unique opportunity to transform IT from a cost center to a strategic value driver. However, infrastructure changes by themselves are not enough to transform the business value of information technology. IT executives also need to help the organization shift focus from technology to business outcomes and communicate more effectively with business managers.

Executive level changes that drive value transformation include linking virtualization and cloud computing capabilities to business objectives, communicating benefits in business terms, and addressing key stakeholder concerns.

If virtualization and cloud solutions are implemented without these bigger picture changes, then virtualization and cloud may get positioned primarily as a cost cutting mechanism. As a result, the business may miss the opportunity to leverage new capabilities for competitive advantage.

This paper and three associated strategy briefs are intended to help IT executives develop a transformation vision, determine current state, identify incremental changes, measure progress, and communicate results.

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Additional Strategy Briefs

- Brief #1. IT Value Transformation Road Map — vision, value, and virtualization
- Brief #2. Evolving Objectives — measuring the value of transformation
- Brief #3. Situational Awareness — identifying competencies for IT value transformation

About the Author

Kurt Milne is the managing director of the IT Process Institute and the primary author of five major IT management research studies. He has 20 years of experience at leading technology companies, including Hewlett-Packard and BMC Software. His main areas of expertise include IT service management and IT controls, inventory and supply chain management, and computer integrated manufacturing.

About the IT Process Institute

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The IT Value Transformation Road Map

Many IT organizations are stuck focused on cost reduction. Business executives don't see value generated in proportion to the amount of IT spending, and remain focused on cutting IT costs. IT executives who see the transformative power and strategic value of IT are often unable to raise the IT value discussion above a cost focus.

The IT Value Transformation Road Map was developed to guide IT organizations through three stages of evolution. The road map puts into practice findings from several groundbreaking research studies that reveal attributes common to companies that have successfully transformed their IT organizations.¹

The transformation model, as shown in Figure 1, highlights suggested changes at two levels. At the infrastructure level, IT deploys virtualization and cloud-computing technologies to address cost, quality of service, and agility objectives. At the IT executive level, IT follows best practices to build business confidence in its ability to support business objectives and enhance business strategy.

IT Value Transformation Road Map
 designed to address key success factors
 at the executive communication level and
 the infrastructure value level

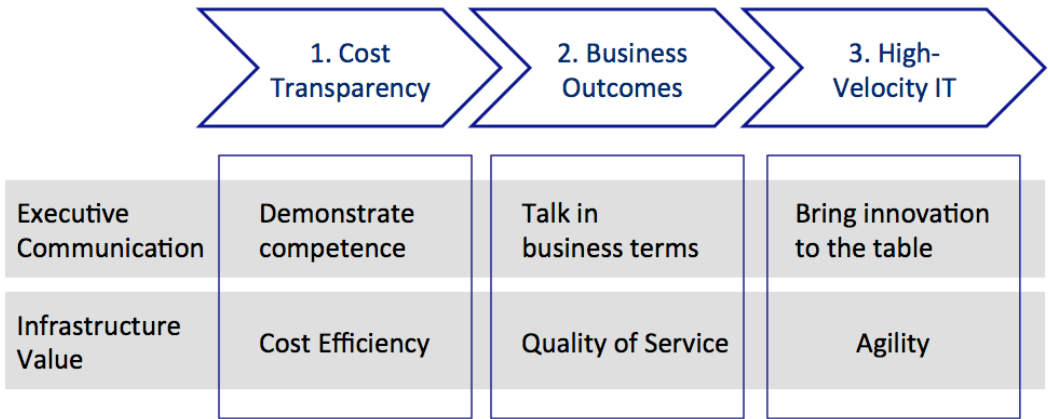


Figure 1. IT Value Transformation Road Map

Although virtualization and cloud solutions may produce measurable improvements in the datacenter, these improvements alone don't necessarily improve business results. The IT Value Transformation road map has been developed to help direct the use of these new capabilities to increase IT's value contribution to the business. By demonstrating that IT is effectively managing resources and by linking IT spending to business results, IT executives can build confidence and shift the focus of discussion away from cost reduction toward more strategic value add.

Figure 2 summarizes the key elements of the IT value transformation road map. This strategy brief focuses on executive communication best practices that guide value transformation.

IT Value Transformation Road Map			
	Stage 1: Cost Transparency	Stage 2: Business Outcomes	Stage 3: High-Velocity IT
Transformation Objective	<ul style="list-style-type: none"> Communicate IT results in business terms Baseline cost, quality and agility 	<ul style="list-style-type: none"> Link IT efforts to business outcomes Deploy shared resource model 	<ul style="list-style-type: none"> Drive game-changing competitive advantage Deploy IT-as-a-service resource model
Key Metrics	<ul style="list-style-type: none"> Capital expenses Operational expenses Service and cost visibility 	<ul style="list-style-type: none"> Availability Service support Application release speed Percentage of resources running what is in place 	<ul style="list-style-type: none"> Time to capability Scalability Process consistency Resource utilization
Infrastructure Value	<ul style="list-style-type: none"> Cost efficiency and transparency 	<ul style="list-style-type: none"> Business application quality of service 	<ul style="list-style-type: none"> Agility and responsiveness
Competencies	<ul style="list-style-type: none"> Establish virtualization foundation Present unit cost information Adopt business-centric communications 	<ul style="list-style-type: none"> Present cost information related to business outcomes Virtualize business-critical applications Allocate IT resources to support business process optimization 	<ul style="list-style-type: none"> Present game-changing IT innovation Deploy private and hybrid cloud solutions Allocate IT resources to identify game-changing innovation
IT Executive Communication Challenge	<ul style="list-style-type: none"> Demonstrate that IT can effectively manage resources 	<ul style="list-style-type: none"> Shift communications to an external business perspective 	<ul style="list-style-type: none"> Identify and communicate game-changing innovation
Executive Level Transformation Story	<ul style="list-style-type: none"> Better resource management 	<ul style="list-style-type: none"> Better service levels for business-critical applications 	<ul style="list-style-type: none"> Improved agility and ability to say “yes” to more opportunities Anticipate high-value opportunities

Figure 2. IT Value Transformation Road Map summary table

Guiding Value Transformation

Because of broad coverage in the business press, most business executives are aware of the term “cloud computing.” These executives, however, may not understand how cloud computing can enhance competitive advantage and help increase revenue.²

Virtualization and cloud-computing models can help lower the cost of activities that simply “keep the lights on.” Datacenter savings free resources to support new business initiatives. But virtualization and cloud can create value that goes beyond IT cost reduction. These new capabilities can increase agility and accelerate time to capability. Better responsiveness to changing business needs creates opportunities to leverage information technology to gain competitive advantage.

But business executives may view the new IT capabilities in the context of a history punctuated by failed or delinquent IT projects, opaque cost-allocation models, and a general sense of lack of business management expertise on the part of IT.

As a result, IT executives need to elevate the perception of IT in order to enable value transformation. This requires IT executives to remake their interaction with business executives. Without this makeover, business executives may mistakenly view virtualization and the pay-per-use aspect of cloud computing as just a cost reduction mechanism.

This paper presents a best-practice approach for IT executives to remake their interaction with business executives. Figure 3 illustrates this approach, mapping executive communications best practices at each stage of IT value transformation.

	1. Cost Transparency	2. Business Outcomes	3. High-Velocity IT
Executive Team			<ul style="list-style-type: none"> • Sell a cohesive cloud strategy
Business Funders	<ul style="list-style-type: none"> • Implement a transparent cost model • Communicate results in business terms 	<ul style="list-style-type: none"> • Business case for shared-resource strategy • Turn communications inside out 	<ul style="list-style-type: none"> • Identify and communicate strategic value
Application Owners		<ul style="list-style-type: none"> • Build confidence in virtualization 	
IT Personnel	<ul style="list-style-type: none"> • Launch a formal virtualization POC 		

Figure 3. Executive communications best practices per stage

Communication Best Practices for Stage 1: Cost Transparency

At the first stage, the IT staff deploys virtualization in those areas controlled by IT. Here, IT builds virtualization-related skills, policies, and procedures that are leveraged in later stages. IT can use the metrics gathered in this stage to create proof points that justify moving business applications to a virtualized environment in Stage 2.

At the executive level, IT can position these initial efforts as the first step in a transformation that will significantly improve IT resource management and utilization. Here, a shift to unit-level costing improves the transparency of IT spending related to the management and maintenance of specific business applications and their underlying infrastructure. Unit-level transparency builds the foundation for allocation-based costing to be introduced in Stage 2 and for usage-based costing introduced in Stage 3.

Best practice: Launch a formal virtualization POC

The virtualization of systems in IT-controlled domains should be managed as a formal Proof of Concept (POC) with IT executive sponsorship and support. At many organizations, initial deployments of virtualization projects are self directed without executive level sponsorship. However, IT executives should sponsor initial implementations in order to include the efforts as part of an overall value transformation.

It's important that IT personnel understand the impact of virtualization and cloud computing on their specific work functions. IT executives should create a project doctrine that energizes the IT staff, making them feel like a part of the POC team.

Create a project doctrine that energizes IT staff

Network and storage infrastructure may change significantly as IT broadly adopts virtualization in Stage 1, manages applications in a shared-resource environment in Stage 2, and deploys high levels of automation in an IT-as-a-service environment in Stage 3. Hardware footprints will shrink as more services are packed into each physical device. Higher degrees of standardization and automation will be adopted to accommodate the increasingly dynamic environment. Consequently, it will probably be necessary to adjust and optimize management, and operating processes and procedures at each stage of the transformation

Performance management practices shift focus to application performance and cross-platform performance. Capacity management efforts must become integral to managing shared resources and developing schemes for targeting and re-provisioning. In addition, IT has to integrate security and compliance requirements with new process capabilities.

IT personnel may express a high degree of uncertainty about how cloud computing will affect the demand for IT jobs. Different roles will emerge as the organization shifts from a technology-centric to a service-centric focus. That's why it's important to make people aware that they have new and exciting opportunities, and to communicate the specifics of those opportunities. The IT executive can paint a compelling picture of the future. This picture can portray how IT can add more value to the business if IT by shifting focus from infrastructure issues to business impact.

Best practice: Implement a transparent cost model

Business executives are keenly aware of IT costs, but they may not see the linkage of these costs to business results. Coarse-grained cost-allocation methods are insufficient to give business executives the information they need to make cost benefit decisions. A more transparent costing scheme is required.

A unit-level chargeback or showback scheme is essential for demonstrating the direct business value of IT. Unit-level costing gives business funders of IT a clear understanding of what drives ongoing IT maintenance costs, allowing them to make better prioritization decisions.

**Build a foundation
for allocation-
based and use-
based charge
back models**

In this stage, IT should introduce a more transparent costing scheme that associates costs on a per-server basis. This creates a foundation for allocation-based and usage-based chargeback functions that are introduced in later stages. A detailed example of how cost models evolve through the stages of IT value transformation is included in ITPI cloud strategy brief #3 titled "Situational Awareness."

Best practice: Communicate IT results in business terms

Business executives expect IT executives to present IT numbers in a way that demonstrates they are effectively managing the resources in their domain of control. Top performers not only know their cost and service delivery numbers, but also communicate them in a way that builds business executives' confidence in their management of IT resources.³

IT executives should position initial virtualization deployments as part of a proactive change in IT strategy, the purpose of which is to drive simultaneous cost, service quality, and agility improvements. Here is an example of how IT executives can use the measurable results of a Stage 1 virtualization POC to communicate numbers in a way that improves business executives' confidence:

This year, we have deployed a new IT strategy designed to improve cost, quality of service, and agility. We have taken this step to improve overall IT value to the organization. To date, we have deployed virtualization technology to 30 percent of the servers used to manage IT functions.

This effort has achieved a 6 to 1 consolidation ratio, resulting in the elimination of 150 servers from the production environment. Previously, these servers were running at a 7 percent average resource utilization level. The consolidated servers are now running at a 37 percent average resource utilization level.

The cost, quality of service, and agility improvements have been striking:

- **Value**—Efficiency gains associated with initial virtualization deployment have increased the amount of overall IT capital and operating budget spent on new business initiatives from 26 percent to 28 Percent of the total budget. Unplanned work has been reduced from 33 percent to 25 percent due to more predictable and streamlined provisioning efforts and improved service quality.
- **Cost**—We avoided \$750,000 in hardware purchases during our latest server upgrade cycle. This will result in an additional \$175,000 per year ongoing savings in power and cooling costs. (The annual maintenance cost for a physical server has been benchmarked at \$1000.)
- **Service quality**—Average downtime for these consolidated systems has been reduced from 50 to 30 minutes per month. That’s a 40 percent improvement. In addition, the mean time to repair (MTTR) for a large service outage has been reduced from an average of 150 minutes to 75— a 50 percent improvement.
- **Agility**—The server deployment process has been optimized such that the average new server deployment time has been reduced from 6 weeks to 2 days, saving 25 man hours per deployment. What’s more, the change success rate for these systems has improved from 85 to 92 percent, resulting in additional operational efficiency and savings.

In the next year, we plan to consolidate another 170 servers to meet our target of 60 percent of IT systems virtualized. This will result in additional savings of \$250,000 in hardware costs and \$350,000 in annual operating costs.

Communication Best Practices for Stage 2: Business Outcomes

The infrastructure level objective at this stage is to consolidate business applications in a shared-resource model, and to bring more systems under the umbrella of failover and disaster recovery control.

This stage has two primary executive communication objectives. The first is tactical — to use measurable results from the initial virtualization POC to communicate the value of moving business-critical applications into a virtualized environment. The improvements in cost, quality of service, and agility measured in Stage 1 can be presented to demonstrate the potential of virtualization to key stakeholders.

The second objective is strategic — to shift IT communications to the business from an internal focus to a business outcomes focus. This change is critical for demonstrating that IT is business focused. If business executives don't see that IT is focusing on business objectives, they will continue to push for IT spending reduction and the redirection of funds to other areas that they believe will better help achieve business objectives.

Best practice: Address concerns of business funders of IT

Business executives who fund the purchase and maintenance of IT systems may have concerns about IT's ability to effectively manage these systems in a shared-resource environment. To address their concerns, IT executives should use measurable results from phase 1 efforts to build a business case for moving assets into a shared-resource environment.

Build a business case for moving assets into a shared resource environment

Here are some suggested points to present to business executives:

Lower capex and opex expenditures. The cost benefits of transitioning to a shared resource computing model are significant. Emphasize significantly reduced ongoing capex and opex spending for the business unit. By moving from a dedicated physical environment to a shared-resource environment, some IT organizations have been able to cut in half what they charge business units for annual maintenance of workloads.

Reduced risk. Virtualization-aware business continuity and disaster recovery controls can protect applications in a shared-resource environment. Application availability and MTTR are significantly improved in a virtual environment. Highlight how IT can restore downed applications, even entire datacenters, to working condition much faster in a shared-resource environment than in a dedicated-resource environment.

Prioritization of critical services. The IT staff can run certain applications in both the dedicated physical systems environment and the virtualized environment and compare their performance before committing these applications to virtual machines. IT can offer to prioritize computing resources for critical business applications to ensure fast performance. In addition, IT can offer to provision key applications in virtual machines on dedicated physical hosts to gain the business continuity benefits of virtualization without having to share the host.

Greater agility. Virtualized, shared-resource environments are more flexible than dedicated physical systems and therefore better support agile development strategies. Shared-resource environments also permit faster provisioning and patching, so new applications can be rolled out faster and are easier to keep updated. Contrast this to dedicated physical systems environments in which new applications may require procurement of new physical systems, delaying application rollout.

Increased support for strategic projects. Shared-resource environments improve operational efficiencies, increase standardization, and boost resource utilization. The

resulting decrease in IT capital and operating costs means that IT has to allocate less of its overall budget to running in-place systems. That frees up resources that can be reallocated to support strategic projects.

A natural extension. In many organizations, already funded network and storage resources are currently shared across business units. This gives the IT executive an opportunity to position the sharing of server resources as a natural extension to the model already established for other resources.

It is also a good idea to solicit the help of other executives in persuading business funders of the benefits of the shared-resource environment. For example, in highly regulated industries, the increased standardization, and the improved business continuity and disaster recovery capabilities of the shared-resource environment are especially important. IT executives in these industries should ask other executives such as the chief security officer or chief compliance officer for their support.

Best practice: Address concerns of application owners

Application owners may be concerned that the quality of service of their applications may degrade when moved to a virtualized environment. It's important to address this concern by showing how a shared-resource environment delivers higher quality of service for business applications. Here are some points to make:

- Deployment times are often an order of magnitude lower for virtual resource deployments.
- Availability and MTTR metrics are significantly better for virtual resources.
- More systems can be covered by high availability and disaster recovery controls in a virtual environment.

Combined, these improvements make a compelling case for persuading application owners to support the move to virtual. Some application owners may still be reluctant to make the move. Giving them control over some aspects of the move may help persuade them. Some may still push back. Don't press them. Instead, present success stories that highlight the benefits other application owners have realized by making the move.

Present success stories that highlight the benefits other application owners have realized by making the move

Here are some points to make:

Guaranteed performance. To gain the support of application owners, it may be necessary to guarantee the performance of applications in the virtualized environment. Here are two ways to ensure fast performance:

- Prioritize CPU, memory and I/O resources for key applications.
- Minimize the consolidation ratio (fewer virtual machines per host). Some systems can be virtualized at a 1-1 ratio (one virtual machine per host) to maximize performance while at the same time gaining the failover and disaster recovery capabilities of virtualization.

Reduced risk. Position virtualization as a way to optimize availability, improve service support, and reduce planned maintenance time. Use the metrics gathered in Stage 1 to show actual improvements realized by virtualizing systems.

Faster provisioning speed. Highlight the faster provisioning speed for virtualized systems. Use real data that compares the average speed for automatically provisioning standard configurations in a shared-resource environment to the speed of provisioning in the dedicated physical system environment. Highlight the superiority of the “machines building machines” approach used in provisioning virtual servers.

Optimized service support. Indicate the lower number of incident tickets in the shared resource environment as compared to the dedicated physical environment. That results in less support issues for applications. Communicate how incident handling procedures can be optimized for critical systems in a shared-resource environment. For example, incidents for certain critical services can be prioritized to ensure fast response by the service desk. In addition, incidents for certain services can be immediately escalated to level 1 support personnel to ensure fast resolution.

Standardized configurations. In the dedicated physical environment, IT has to create servers that meet the specifications for specific applications, an expensive process that results in the proliferation of non-standard configurations. In the shared resource environment, IT can build a portfolio of standard servers and let application owners choose their preferred configurations. IT can monitor and report the performance of the applications to the application owners. The owners can use this information to make intelligent decisions, such as deciding whether to move to lower- or to higher-cost configurations.

Updating of older systems. Some applications may be running on out-of-date operating platforms. IT can move these applications to the latest operating system versions and server configurations — without rewriting source code or out-of-date dynamic link libraries (DLLs). Significant performance improvements may result from moving legacy applications to the latest hardware platform.

Best practice: Focus communications on business results

Stage 2 results can be used to improve business executive confidence in IT's ability to impact business outcomes. Communicate the virtualization-related improvements, such as improvements to business process performance, cost reduction, or revenue gains. It's important to communicate this information in terms meaningful to business executives

Here's an example of how IT executives can present Stage 2 results:

We have embarked on an IT value transformation strategy to lower cost, increase quality of service, improve agility, and increase the value of IT to the organization. Here are the results we are seeing in the second stage of the transformation:

To date, we have moved 25 percent of business applications and 60 percent of IT-related servers to a shared-resource model. This move has reduced the average annual cost per user from \$65 to \$45 and has improved overall system utilization from 47 percent to 58 percent.

- **Value**—By freeing resources through our Stage 2 efforts, we have been able to increase the portion of overall capital and operating budget allocated to new business initiatives from 28 percent to 33 percent. We have deployed these increased resources to the supply chain and customer retention process improvement teams. By linking systems to report regional sell-out and overstock trends, we have optimized distribution and increased gross sales receipts by 15 percent. The new customer portal has improved customer satisfaction scores by 20 percent.
- **Cost**—By virtualizing 25 percent of more than 900 business applications, we have avoided \$600,000 of hardware purchases and reduced ongoing operating and maintenance costs by 12 percent. Achieving an 8 to 1 consolidation ratio has increased system utilization from 47 percent to 58 percent and has eliminated 100 servers from the production environment. By virtualizing servers, we have reduced their annual infrastructure cost. A physical server has an annual cost of \$1,000. Virtualizing that server reduces its annual cost to \$500.
- **Service quality**—In recent customer surveys, our business users identified improved customer service as a top priority. In response, we have reduced unplanned downtime from an average of 30 minutes per month to 20 minutes. We have also reduced planned maintenance hours from 180 minutes per week to 20 minutes. Those improvements have resulted in a 33 percent improvement in application availability. In addition, we have brought 50 applications that were previously unprotected into the purview of failover and disaster recovery control.

- **Agility**—We have reduced the time-to-capability for upgrades, and that has accelerated the release of the new customer portal. We have also improved the predictability of application deployment efforts, reducing the average variance from 30 percent to 10 percent. The resulting improved scheduling has enabled product management to announce and release a new product before a competitor. This will have an estimated revenue impact of \$10 million.

In the next year, we plan to launch an IT-as-a-service model that combines both internal and external cloud capabilities. This approach will give each business unit a portfolio of deployment options that features access to scalable, pay-per-use computing resources. Access is governed by policies and controls to ensure continuing compliance with security policies and regulatory requirements.

Communication Best Practices for Stage 3: High-Velocity IT

The infrastructure objective at this stage is to deploy agile and scalable resources that allow IT to respond quickly to emerging business opportunities. Using an IT-as-a-service model with high levels of process automation enables business users to rent compute resources, deploy them temporarily, and scale them on demand. IT can service workloads internally using virtualized pools of computing resources, or externally through public cloud service providers. A portfolio of standardized deployment options allows users to select the deployment environment that best fits the cost, service quality, and agility requirements of the deployed service.

The executive communication objective is to articulate the business value of cloud computing to the executive team and the board of directors. The focus of the communication is to link the use of cloud resources to new sources of IT-enabled value to the organization. Stage 1 and Stage 2 drive improvements in both operational efficiency and the alignment of IT efforts with business outcomes. These improvements give IT executives the credibility they need to shift the focus of discussion with business executives from cost control to driving strategic value.

Best practice: Present a cohesive cloud strategy

When communicating a cloud vision to the executive team, focus on the game-changing opportunities presented by the use of optimized IT resources. It's important to convince business executives that building and managing a cloud-enabled data center is not just another cost reduction project. The cloud model transforms the way the business gets value from the IT infrastructure.

The move to the cloud environment transforms the role of the IT organization from technology implementer to technology facilitator. IT professionals not only manage computing resources, but also uncover new opportunities for leveraging technology to improve business value.

The cloud environment transforms the role of the IT organization from technology implementer to technology facilitator

Here are some of the major benefits of a cloud strategy that can be tailored for each organization:

Accelerated time to capability. By facilitating access to computing resource pools, the cloud environment can reduce friction between IT and the business. Business strategies often require launching low-cost probes to evaluate market demand followed by the speedy release of products when strong demand is indicated. With the cloud, IT can better align infrastructure management with agile development cycles to support probes and accelerate the release of new products and services. The cloud also enables the rapid development and deployment of game-changing uses of information technology.

Optimized internal resource utilization. From the perspective of the CFO, a cloud strategy optimizes the utilization of expensive technology. Optimum utilization of computing resources reduces overall IT capital and operating expenses and increases return on investment in these resources. For example, by consolidating assets in a shared-resource environment, IT can optimize the utilization of capacity across business units to meet business requirements without over-provisioning. Because IT spending often represents a significant portion of the enterprise's total expenses, reducing IT spending can have a substantial impact on the bottom line.

Optimized use of external resources. A comprehensive cloud strategy establishes policies that govern the use of external computing resources. That strategy should take a portfolio view that includes all required services along with their resource requirements, expected workloads, and security and compliance requirements. The strategy can then specify what deployment options are feasible for each service based on the mix of cost, quality of service, and agility needs of the business for that service.

Improved cost transparency. Unit-level costing in a mix of fixed, allocation-based, and usage-based cost scenarios ties IT costs to consumption. The resulting transparency and linkage to business use helps business executives make more-informed IT spending decisions. A use-based cost model can also shift internal accounting of capital expense to operating expense.

Demand modification. A cloud strategy can help IT and the business rationalize the demand for IT services. Effective rationalization of IT services may identify services that are not cost justified, which will reduce overall demand for IT. Having a service catalog that lists standardized service offerings encourages business funders and application owners to opt for "just enough" resources for their needs.

Tighter control of compliance and security. A cloud strategy can help ensure that the mix of internal and external resources does not expose the organization to risk of noncompliance with security and regulatory mandates. A policy-based deployment model minimizes the likelihood that business users will use external computing resources in ways that violate compliance or security mandates.

Identification of revenue-generating innovation. Because it fosters increased efficiency, cloud computing frees a substantial amount of IT resources previously occupied fulltime just “keeping the lights on.” The cloud strategy should reapply these resources to the shaping of business strategy with technology-based innovation. For example, IT personnel can free up time that they can use to gain greater understanding of the enterprise’s customers and learn what drives competitive advantage for the business.

Best practice: Identify and communicate strategic value

A virtualization- and cloud-based IT value transformation model is uniquely suited to improve cost, quality of service, and agility. However, the ultimate goal of the three-stage IT Value Transformation Road Map is not solely infrastructure transformation. Rather, the ultimate goal is to create IT-enabled business advantage.

Resources freed as a result of operational efficiencies at Stage 1 and Stage 2 can be reapplied, in part, to researching and identifying game-changing innovation. Once a CIO has earned the right to participate in business strategy activities through his or her efforts in Stage 1 and Stage 2, he or she then needs to allocate resources to bring fresh ideas to the table.

Most business executives understand how to press IT to cut costs. However, they may not necessarily be well versed in technology or in IT’s potential to influence business outcomes. In many cases, business executives do not know how to interact with IT to solicit help in meeting their top-line business objectives.

In many cases, business executives do not know how to solicit help in meeting their top-line business objectives

By this stage, business executives have gained the confidence of business executives that IT is not internally-oriented but rather is focused on business outcomes. IT executives must now proactively educate business managers on how IT can help drive strategic value.

Here’s an example of how IT executives can use Stage 3 results, presenting their numbers with a focus on game-changing innovation:

This year, we continued to see results from the IT strategy transformation program we implemented to improve overall value of IT to the organization.

One of the overarching goals of this program is to reduce IT’s “run-the-business” spend and increase our “grow-and-change-the-business” spend. Toward that end, we have increased the percentage of overall IT capital and operating budget allocated to new initiatives from 28 percent three years ago to 42 percent today.

To enable this shift, we have re-architected our IT infrastructure. We have applied virtualization and cloud computing technologies to deploy shared-resource and IT-as-a-service deployment models. To date, we have redeployed 70 percent of more than 900 business applications to a virtual, shared-resource, or IT-as-a-service deployment environment.

As a result, we have realized significant capital and operating efficiency gains and that has freed up substantial IT resources, including highly-skilled personnel. We have reassigned these people to more strategic endeavors, such as business process optimization tied to business outcomes objectives, and the pursuit of game-changing innovation.

- **Value: IT-driven innovation**—In the last year, IT and product strategy teams have identified five strategic initiatives that are directly enabled by technology. These initiatives are focused on this year's strategic improvement road map that includes customer retention, inventory management, and supplier integration. The profit-and-loss (P&L) benefits are compelling and include a \$45 million revenue gross margin increase and an \$85 million gross expense reduction. This expense reduction includes a \$62 million operating expense reduction and a \$23 million working capital expense reduction.
- **Value: Business process optimization**—In the last year, IT has continued its efforts to drive business process optimization and further optimize regional distribution by integrating supplier order systems into regional inventory shipments. These efforts have reduced overall supply chain costs by 5 percent.
- **Cost**—We have reduced the annual infrastructure cost per application user from \$45 to \$22.
- **Service quality**—We have improved the average availability of our systems by 25 percent (from 20 minutes of average downtime per month to 15 minutes). In addition, we have brought 600 business applications under failover and disaster recovery control. That's an increase of 20 percent over last year.
- **Agility**—New IT-as-a-service deployment models have accelerated the development, testing, and deployment of 15 new business applications. Because development teams can now select standard configurations from our service catalog, we no longer require the participation of the infrastructure team in the design phase. 45 percent of server requests are now being made through the self-service portal, reducing the average deployment request time to just 45 days.

Summary

Virtualization- and cloud-driven transformation creates an exciting opportunity for IT executives to change the perception of IT by the business and reengineer the strategic value of IT. To take full advantage of the opportunity, it is critical that IT executives frame interaction with business executives in a way that shifts focus from cost to strategic value-add. This paper has presented an approach for IT executives to use in framing that interaction.

When communicating the cloud vision to the executive team, IT executives should focus on the game-changing opportunities created by the transformation to cloud computing. Building a cloud-enabled data center is not just another infrastructure project. Cloud computing can change the way the business perceives the IT infrastructure and the IT organization itself. By effectively communicating the business impact of the transformation to cloud computing, IT executives can change the perception (and role) of IT from cost center to strategic value driver.

Endnotes

¹ Key findings from three primary research studies suggest a common pattern of activity at companies where IT executives have led the transformation of IT from cost center to strategic value driver.

Richard Hunter and George Westerman, *The Real Business of IT: How CIOs Create and Communicate Value* (Boston, MA: Harvard Business Press, 2009), xvi. This book highlights findings from a wide range of studies conducted by Gartner and MIT, including extensive interviews, surveys, and roundtables. “The path to success for these CIOs is not only clear, but astonishingly common—not in the sense of ordinary but in the sense that it is shared.”

Kurt Milne, “Strategic Alignment Performance Study,” IT Process Institute, September 2008. This ITPI study of 269 IT organizations identified specific practices that optimize IT business integration that differ based on the organization’s overall value delivered to the business.

Vittorio Viarengo, “Virtualization Journey Stages,” *Virtualization Journey*, www.journeytocloud.com. This 2009 study based on detailed interviews of IT executives at more than 50 VMware customers found a common pattern of how organizations implement and expand their use of VMware products.

² Kay Lewis Redditt, Thomas M. Lodahl, *The CIO as an Engineer of Revenue*. CIO insight. No 112, 2nd quarter 2010. P27.

³ Richard Hunter and George Westerman, *The Real Business of IT: How CIOs Create and Communicate Value* (Boston, MA: Harvard Business Press, 2009), 43. “To be perceived as a top performer, IT must know the score and communicate it to the rest of the business—just as the head of sales knows and communicates the sales figures for the latest quarter.”