

INCREMENTAL IMPROVEMENT TO
TRANSFORMATIONAL CHANGE

Using
Benchmarks
to Drive
Operational
Excellence

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Benchmarking analyses of business operations can be applied to drive consistent gains within discrete service towers, to enhance the efficiency of enterprise-wide business processes, and to identify the potential for fundamental change that produces a new and significantly more effective operational standard.



Benchmarking analyses are essential to creating the vision of the future state and to charting the path towards it.

Businesses use benchmarking to gain factual insight and transparency into the current state of their operations, and to obtain a clear understanding of performance gaps and a quantifiable sense of the potential for improvement. That opportunity to improve can be incremental, in the sense of optimizing the existing operational model. Or, it can be transformational, by quantifying the potential of moving from a customized delivery model to a more standardized and rationalized way of doing things. In either case, benchmarking analyses are essential to creating the vision of the future state and to charting the path towards it.

This white paper examines different ways that benchmark analyses can drive improvement initiatives in IT operational towers and business processes, and how they support change initiatives designed to create an optimal service platform.

ROOT CAUSE ANALYSIS

Benchmarking involves data collection (quantitative and qualitative) around a hierarchy of metrics that represent the operation or process being assessed. That data is then analyzed in a comparative context against a reference standard of peer and/or top-performing organizations. This process yields insight into performance gaps and enables the formulation of improvement plans with quantifiable targets.

An effective benchmark analysis:

1. Provides a transparent baseline of current performance.
2. Compares current performance against that of world-class organizations, industry peers, internal business units, or the organization's own performance over time.
3. Quantifies the gap between existing and optimal performance, thereby defining the scope of the potential opportunity in terms of cost savings, reduced headcount, or improved cycle times, quality, or productivity.
4. Identifies the root causes of performance gaps at a granular level, enabling analysis that leads to an action plan to enhance efficiency in the operation or process.



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Many organizations use benchmarking to drive improvement within IT service towers. The chart on the next page compares total IT spend for "ACME" (top number) against a reference group average of top-performing companies (RFG). At first glance, ACME seems to be performing well, since costs are comparable for the high-level measure of total desktop costs per user (\$1,628 vs. \$1,604) and desktop hardware costs (\$730 vs. \$715).

However, an anomaly appears at the lowest level, specifically in the area of ACME's hardware maintenance cost per desktop. But the impact of this anomaly on overall desktop performance is obscured by lower-than-average storage costs (shown in orange). Moreover, at this level, while the differences in hardware maintenance costs are indicated, the reasons behind those cost differences are not apparent.

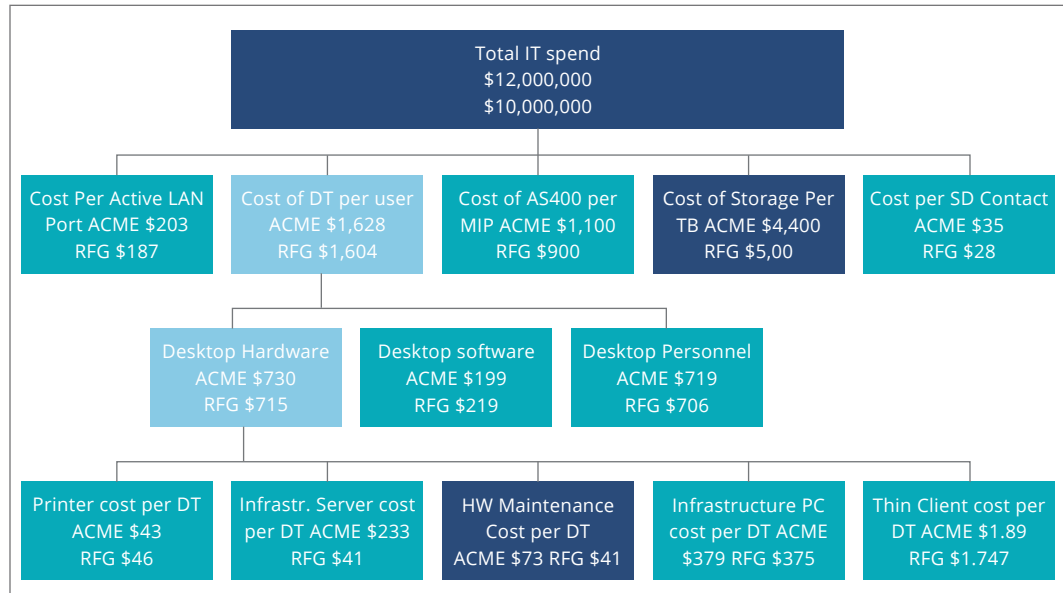
A number of factors may contribute to above-average desktop hardware maintenance costs. For companies that keep their desktops as long as possible, the higher cost may reflect pay-as-you-go maintenance for systems that are no longer under standard or extended warranty. Similarly, some organizations contract for maintenance beyond the end of the warranty period.

Moreover, following the economic downturn, many businesses seeking to tighten belts extended their traditional three year refresh cycle by a year or more, thereby increasing maintenance costs. Hardware advances have also expanded refresh cycles, with some firms simply maintaining PCs indefinitely if they remain in good working order.

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In this instance, additional contextual and qualitative analysis through interviews and workshops with IT management and users revealed that ACME's refresh policy, while stated to be three years, was not being strictly followed. Older PCs were requiring a disproportionately high level of relatively expensive fixes. By adhering more strictly to the refresh cycle, ACME significantly reduced its hardware maintenance costs.

BUSINESS PROCESSES

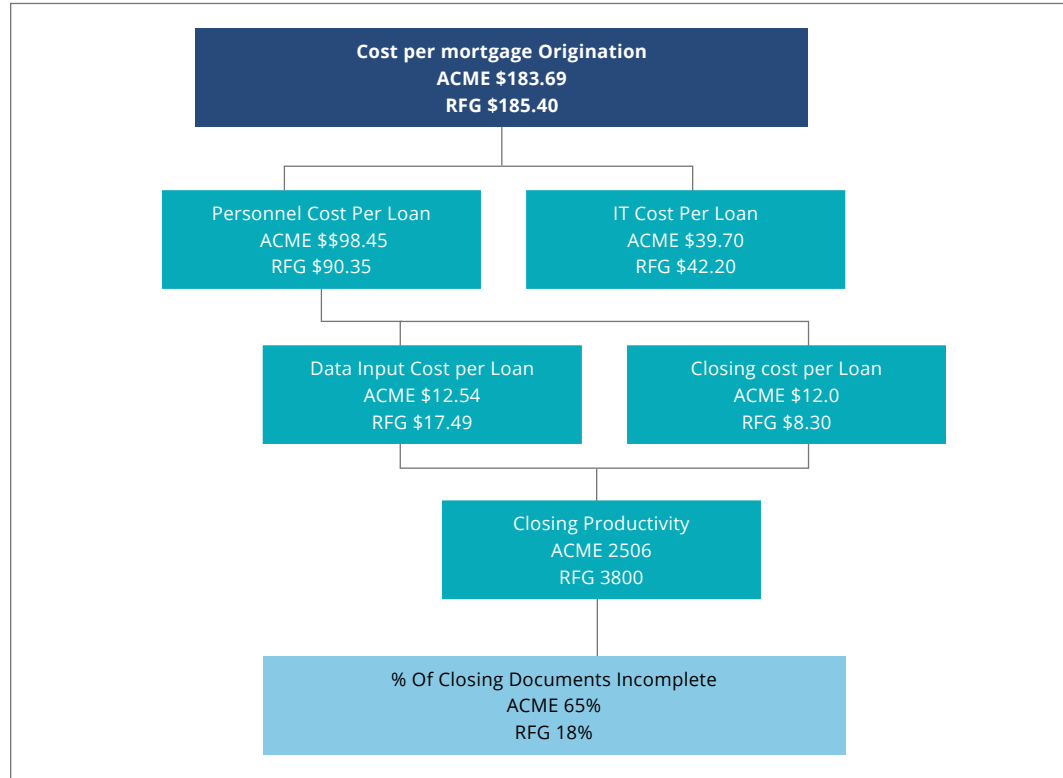


Benchmarking analyses can also enhance the efficiency of critical business processes and examine the linkages between business activities, processes, and personnel, and the IT systems that support them.

Benchmarking analyses can also enhance the efficiency of critical business processes, such as opening a bank account, reviewing a loan application, or making a payment. Such initiatives extend beyond a discrete operational tower (such as the desktop environment described earlier) and examine the linkages between business activities, processes, and personnel, and the IT systems that support them.

The chart below illustrates functions and processes involved in administering the origination of a mortgage loan. In this instance, "ACME's" overall costs are competitive. However, at the secondary level, ACME's personnel costs are higher, and IT investment is lower, than reference standards. Personnel costs are being driven by lower productivity in closing applications. The most striking anomaly appears at the lowest-level metric (in yellow), where 65 percent of ACME's applications have incomplete documentation, compared to just 18 percent for the industry top performers.

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Here, a combination of antiquated systems, lack of automation, and inefficient processes result in low productivity and high error rates. Investment in IT systems that automate document checks drives significant improvement in ACME's business operations.

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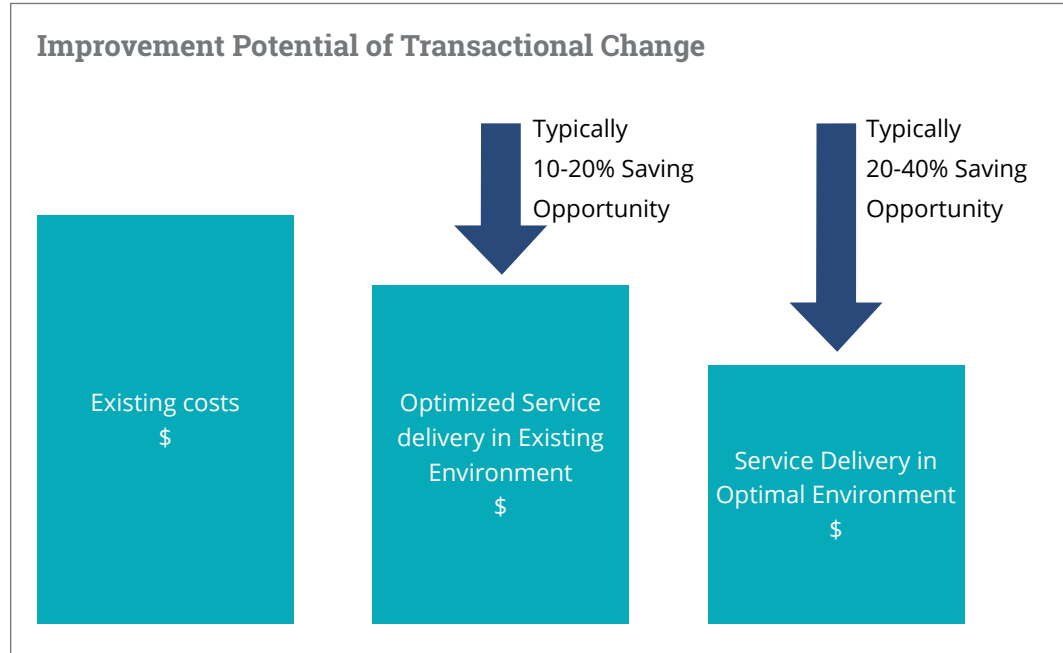
Rather than simply showing a business how to do things better, a benchmark can show how to do things differently.

The IT and business process scenarios described earlier show how benchmark analyses can drive significant and consistent improvement in operational efficiency. Such analyses can also provide insight into how operations can be fundamentally transformed.

In other words, rather than simply showing a business how to do things better, a benchmark can show how to do things differently.

Traditional improvement initiatives drive incremental efficiency gains within the existing operational environment, and typically produce annual savings of 10 percent to 20 percent. That opportunity is illustrated by the bar titled "Optimized Value in Existing Environment" – the 10 percent to 20 percent that's achievable by "tightening the screws" on the way services are delivered.

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Top-performing organizations are seizing the opportunity to achieve a higher level of operational improvement – one that typically improves performance by 20 percent to 40 percent, as illustrated in the “Service Delivery in Optimal Environment” box.

This emerging opportunity is made possible by the increasing viability of utility computing. While the concept has been well established for years, the benefits of utility computing are being realized, thanks to technology advances as well as to the growing maturity of clients and service providers in defining the commercial arrangements necessary to make the model work.

Implementing an “Optimal Environment” requires removing the operational constraints that add complexity and inefficiency. This is done by applying competitive pricing mechanisms defined by the business and service provider to drive standardization and leverage the economies of scale characteristic of the utility model.

Benchmarking plays a critical role in the development of an optimized IT operation, initially by baselining the existing environment to gauge performance and quantify the improvement opportunity.

The current state analysis then serves as a foundation to assess various options, model alternative scenarios, and determine the best course of action to take.

As the change program is defined and implemented, regular benchmarks track progress against specific milestones to ensure that the potential benefits identified in the initial baseline are actually being achieved.



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SUMMARY

Benchmarks and comparative analysis contribute to enhanced operational efficiency in a variety of ways. An effective measurement system provides a foundation for better decision-making and realization of tangible results, both in terms of operational performance and IT's contribution to the business.

Performance analysis in a comparative context can be effectively applied to improving the cost efficiency, productivity, and quality of IT infrastructure towers, and to enhancing the operational efficiency of business processes.

Through detailed analysis of performance drivers, organizations can isolate the root causes of performance gaps and formulate specific actions that result in demonstrable and ongoing improvement in existing operations.

By highlighting gaps between existing performance and an optimized environment, benchmarking analyses can also drive change initiatives that produce a higher level of performance based on a standardized service framework and utility model.

ABOUT THE AUTHOR

INCREMENTAL IMPROVEMENT TO TRANSFORMATIONAL CHANGE **Using Benchmarks to Drive Operational Excellence**

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Nigel leverages more than 20 years of experience in service development, change management and sourcing strategy to help his clients save money and discover the long-term benefits of operating IT commercially. Nigel works with companies around the world and across a variety of industry sectors helping enterprises move to agile delivery models based on the delivery of standard services and the exploitation of emerging technology in both IT and business operations. Nigel's expertise includes the use of benchmarking techniques and scenario analysis as the basis to drive informed change. He has an MBA and a BS in Mathematics, which he utilizes to analyze companies for opportunities to save money and time. He is recognized as a thought leader on service catalog construction and TBM.



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