

Opportunities for Action in Technology and Communications

# Transforming IT at Telcos: Who's in the Driver's Seat?

THE BOSTON CONSULTING GROUP



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As industries of all kinds come to rely more and more on information technology, companies surely must be growing more and more comfortable with it. Not so. Most large companies still have a distinctly awkward relationship with IT and struggle in vain to improve matters—to reassert control and gain confidence that their business needs are driving IT rather than the other way around.

Consider telecommunications companies. Almost without exception, telcos are very mindful of the crucial role that IT plays in their business, so they spend willingly and heavily on their IT infrastructure—applications, systems, and hardware—and they upgrade and adjust it whenever they introduce new products and services. But their commitment often proves counterproductive. The IT infrastructure grows increasingly complex, unwieldy, inflexible, and costly to run, to the point where it becomes constricting rather than enabling. It is as if these companies were doomed to create their own spiral of diminishing returns. The same fate awaits companies in any other industry to which IT makes a vital contribution, often with even graver results.

### **Negotiating the Bumpy Road Ahead**

As competition increases and technology advances, companies will have to define new, ever more far-reaching IT requirements, and fulfilling them will become even more difficult. The typical telco, for example, will have to contend with four main challenges:

- The inevitable spread of Voice over Internet Protocol (VoIP), which will diminish revenues and margins and increase pressures to justify the cost of IT operations and investments
- The relentless growth of new broadband-based products and services, which will demand IT's support in getting them to market faster
- The addition of TV and other content to the service portfolio, which will require a willingness to add and replace distribution channels as well as content suppliers—and the flexibility to do so
- An increase in cross-selling, product and service bundling, and segment-specific targeting, which will necessitate a holistic view of customers in their interactions with all parts of the company

To confront these challenges effectively, telcos need to find new ways of optimizing their IT. In our experience, four steps keep emerging as imperative:

- Aligning your IT with the company's core business strategies
- Establishing a target spending limit for your IT
- Developing a road map to transform your IT
- Organizing your IT and its business links to drive the transformation

There is also an underlying fifth imperative that requires constant attention: aligning all four steps in order to maximize their benefits.

## Aligning Your IT with Your Business Strategy

The first step in making your IT more manageable and cost-effective is to make it consistent with the company's core business strategies. The conventional approach to IT spending, which pays little attention to this crucial link, has a lamentable record.

Typically, IT departments invite stakeholders throughout the organization to submit any new IT requirements. These efforts are seldom satisfactory, either because they fail to formulate the requirements clearly or because they address sketchy technical issues instead of business objectives. Accordingly, little energy goes into classifying and consolidating them, and even less into rigorously quantifying their costs and benefits. What lands on the desks of decision makers is a mere wish list, comprising underspecified and underanalyzed items that cannot easily be prioritized, let alone accepted or rejected. The result is new IT applications, with superfluous functionality and technical features, that tend to burden rather than advance the business they were intended to serve. And, predictably, the cost of implementing and operating such "enhanced" IT is much higher than originally anticipated.

What is needed is a quite different starting point: separating your IT must-haves from the nice-to-haves on the basis of the company's business needs. All IT objectives should be defined by the senior management team, not by departmental managers or even by dedicated IT policymakers. And IT decisions should be driven by business imperatives, not by the convenience and technical preferences of IT specialists.

A typical plan of action might develop as follows: Your company's senior management team—guided by key

business strategies and using a strict business perspective—identifies 10 to 15 top-level strategic requirements relating to IT. The management team passes those requirements on to a project team—made up of business and IT analysts—which quantifies their financial implications in terms of IT costs and benefits and in accordance with current business strategies. The senior management team then ranks the various IT requirements on this financial basis rather than on the basis of IT functionality and technicalities (which in any case are often beyond their understanding). In our experience, this approach has proved extraordinarily valuable in helping senior management engage with IT issues and understand their business impact.

After this filtering process is complete, no more than five of the original strategic IT requirements should remain as priorities. For a telco, those might include the need to take a holistic view of customers, the need to reduce the time to market for new products, and the need to bring down IT expenditures. But you are almost sure to find that many of your other strategic IT requirements will ultimately be fulfilled as well, at least in part, because today's standard software tends to provide such broad functionality.

## **Assessing How Low Your Spending Limit Can Go**

A company's list of strategic priorities will invariably include one particular item: a substantial reduction in IT costs. The second step in transforming IT is therefore to establish a target spending limit.

The traditional approach is to rely partly on instinct and partly on benchmarks that don't have anything

to do with the specifics of the company's situation. The resulting figures are little better than arbitrary.

Figuring out a viable spending limit on IT once again requires a different starting point. Ignore your company's existing IT for a moment and consider instead the ideal IT you would build, if you could, from the outset: one that supports your strategic business priorities, both current and future. Design this ideal IT blueprint from scratch, using the most economical off-the-shelf packages and systems, and then calculate how much it would cost to implement and operate. That figure will serve as a yardstick against which to judge your cost-cutting targets: Are they feasible and appropriate? Needlessly timid? Excessively ambitious?

## **Developing a Road Map for Change**

The third step is to draw up a long-term plan for transforming IT. Your ideal IT blueprint will provide a standard for assessing your current applications and systems. If they are out of sync with your needs, you can either upgrade them or replace them with others that serve the intended purpose more effectively. If they are in sync with your needs, you may still decide to replace them with cheaper counterparts.

At this point you can begin to develop an implementation road map. Planning should be rigorous and extensive—producing a series of clearly defined and manageable tasks—to avoid making a mammoth project even more daunting and time-consuming. Prepare to devote about five years of tough work to the effort.

The road map should comprise various major initiatives, each analyzed in terms of installation time and cost, operating cost, personnel requirements, and interdependency with other initiatives. Compare the resulting expenditures with the projected cost of continuing with your existing IT during the same period. You will likely find that the incremental cost of transforming your IT is not nearly as high as you had expected.

## **Driving the Transformation**

The final step is to drive the transformation by organizing your IT and its business links in an optimal way. All too often, large-scale IT transformation projects end in failure. In some cases, the failure is rooted in insurmountable technical problems. But in our experience, the blame usually lies elsewhere, in mismanagement—specifically, in failing to appreciate how critical IT and its transformation are to the company's overall business.

If the transformation road map is to fulfill its promise, what is needed is total commitment by the senior management team—not just to the plan per se but to every stage of its realization, and not just to its effects on IT but to its effects on general business functions as well. To guarantee the maximum business impact of all crucial decisions—especially those involving tough trade-offs necessitated by cost guidelines—each major IT initiative should be led by a member of the senior management team. And, ideally, the senior management team should include the chief information officer. The CIO's participation will have multiple benefits: getting the other team members more involved in the overall endeavor, safeguarding the

road map from less IT-minded managers, and ensuring that business decisions take the IT transformation process into account.

Involvement breeds enthusiasm. It is heartening to see, time and again, how senior business managers suddenly become converted from distant and cynical observers of IT into ardent leaders of IT transformation projects.

But full commitment does not mean uncritical commitment. In fact, one other sine qua non of an IT project's success is flexibility. You will almost certainly need to update the road map occasionally in order to incorporate any changes in strategic business priorities, and to tweak it so that it stays in line with other ongoing projects and programs.

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By basing your long-term approach to IT on your company's core business strategies, you stand to benefit handsomely both in savings and in business impact. You will also be able to manage your IT suppliers and your own IT skill pools with much more finesse and foresight. Above all, you will find it easier to establish or reinforce the proper relationship between business strategy and IT resources—with the former driving the latter and not the other way around.

The road to these benefits is a long and demanding one. The senior management team will have to stay on that road for years, focusing on the goal as well as the details—on the high-level strategic requirements as well as the stubborn realities of specific projects. And IT specialists will have to subordinate their tech-

nical interests to a strict business perspective—no easy matter when they are the only ones who really understand the ever-changing IT landscape. But they must accept (or senior management must compel them to accept) that this expertise does not entitle them to occupy the driver's seat.

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