MEASURING OPERATIONS

How to Judge Your I.T. Spending

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TOOL: Building an I.T. Scorecard

How do you evaluate changes in I.T. spending when your company is dealing with internal restructurings and external factors such as an economic downturn? It can be misleading to compare annual technology spending with a company's overall revenue—especially when looking at a company with a sizable technology outsourcing arrangement. The purpose of this scorecard is to examine changes in I.T. budgets and compare them with other influences that affect technology spending. Our example is based on financial information reported by General Motors, which has outsourced technology operations since the 1980s. A comprehensive review like this can help executives determine whether management of I.T. is aligned with enterprise performance.

INSTRUCTIONS: Step 1: Get spending and other financial information for a "Base Year"—ideally three or more years ago—and the "Current Year." The example below compares 1997 with 2004. Compare the percentage change from the Base Year and Current Year. **Step 2**: Tag favorable percent changes in indicators in green; unfavorable percentage changes in red. If I.T. indicators related to I.T. are green but I.T. indicators related to enterprise performance are mostly red, this suggests that the CIO should seek opportunities to improve business beyond I.T. cost cuts. For an interactive version of this scorecard, go to GO.BASELINEMAG.COM/FEB06.

		EXAMPLE			YOUR COMPANY		
		BASE YEAR, 1997 A	CURRENT YEAR, 2004 B	PERCENT CHANGE (B-A)/B	BASE YEAR A	CURRENT YEAR B	PERCENT CHANGE (B-A)/B
I.T. INDICATORS RELATED TO I.T AND SALES							
	WHAT IT MIGHT MEAN						
Annual I.T. spending	A CIO may claim improved efficiencies in I.T. operations. A big drop could be meaningless if there's been a merger, acquisition or major outsourcing contract.	$4,000	$3,000	-25.0%			
Annual sales	If sales change is positive, and employment change (below) is negative, the ratio of purchases to sales has increased. I.T. spending cuts may not be as impressive as they appear.	$168,919	$190,812	13.0%			
I.T. INDICATORS RELATED TO ENTERPRISE PERFORMANCE							
Number of employees	If the percentage decline in the number of employees is materially greater than the percentage of sales growth, the firm's outsourcing has likely increased. This is a top indicator of I.T.'s scope.	608,000	324,000	-46.7%			
R&D spending	R&D tends to be a heavy user of I.T.; a cut in R&D spending should result in a reduction in I.T. spending, though cutting R&D is not advisable.	$8,200	$6,500	-20.7%			
Transaction costs	If a company outsources its work, a large jump in transaction costs could signal lower I.T. effectiveness.	$7,992	$13,894	73.8%			
Annual profit	If profits have declined significantly, the entire outsourcing strategy may not be working as well as expected.	$6,698	2,805	-58.1%			
Plants and equipment	If you've outsourced work, you shouldn't need more equipment and buildings. An increase here suggests I.T. may not have been involved in fixed-asset management.	$117,684	$124,988	6.2%			
Inventory	An increase in inventory may not be consistent with improved management of the outsourced value-chain.	$12,102	$32,181	165.9%			

NOTE: *TRANSACTION COSTS REPRESENT THE EXPENSE FOR SALES, GENERAL & ADMINISTRATION MINUS THE EXPENSE FOR R&D