

Workbook

MAKING DECISIONS

Tactical vs. Strategic

BY PAUL A. STRASSMANN

TOOL: Should Your I.T. Spending Promote Top-Line or Bottom-Line Growth?

When should your I.T. organization's mission switch from being "Strategic," e.g., working on improving your corporation's competitive position, to "Tactical," e.g., hunkering down, running data centers and networks more securely and reliably at a lower cost? To complete the worksheet below, consider this analogy: You have a gasoline gauge in your car. Only when the dial moves into the red zone does it signal that you must stop and fill up the gas tank. Below are "threshold warnings" that represent a call for remediation.

INSTRUCTIONS: Get financial results for your company and key rivals, and do the calculations described. Information Productivity is defined as operating profits divided by the costs to move bits and bytes, commonly referred to as sales, general and administrative (SG&A) costs. A company's Knowledge Value is obtained by subtracting its shareholder equity from the stock market valuation. To get an interactive version of this worksheet, go to GO.BASELINEMAG.COM/SEP06.

INDICATORS TO DETERMINE YOUR APPROACH		EXAMPLE	YOUR COMPANY
ANNUAL SALES GROWTH			
A	Your company	6.3%	
B	Competitor	10.5%	
C	Difference $((A - B) \div A)$	-66.7%	
If C shows a decline of 25% or more, this indicator is Strategic. Tactical fixes are unlikely to improve sales; product innovation or market expansion may be needed.		STRATEGIC	
ANNUAL EMPLOYMENT GROWTH			
D	Your company	1.2%	
E	Competitor	0.3%	
F	Difference $((D - E) \div D)$	75.0%	
If F is greater than 25%, it's Tactical. If rivals limit head-count growth more effectively, identify tactics to accomplish that—such as automating some operations.		TACTICAL	
AVG. INFORMATION PRODUCTIVITY (See go.baselinemag.com/prodtools)			
G	Your company	1.8%	
H	Competitor	7.2%	
I	Difference $((G - H) \div G)$	-300.0%	
If I shows a decline of 25% or more, it's Tactical. Simplification of business processes is likely to be in order, which requires tactical moves.		TACTICAL	
KNOWLEDGE VALUE PER EMPLOYEE (See go.baselinemag.com/prodtools)			
J	Your company	0.2%	
K	Competitor	12.0%	
L	Difference $((J - K) \div J)$	-5,900.0%	
If L shows a decline of 25% or more, it's Tactical. Because this indicator is tied to stock market valuation, management would likely take steps to shore up valuation.		TACTICAL	
CURRENT ANNUAL I.T. SPENDING PER EMPLOYEE			
M	Your company	\$27,758	
N	Competitor	\$18,500	
O	Difference $((M - N) \div M)$	33.4%	
If O is greater than 25%, it's Tactical. A material disparity here underscores the need to improve the efficiency of software development and computer operations.		TACTICAL	
RATIO OF I.T. BUDGET TO TOTAL EMPLOYEE COMPENSATION			
P	Your company	31.8%	
Q	Competitor	21.0%	
R	Difference $((P - Q) \div P)$	34.0%	
If R is greater than 25%, this indicator is Tactical. When a company realizes a high ratio in this area, it suggests there is an excessive allocation of funds to I.T.		TACTICAL	

RESULTS:

If "Tactical" shows up in most of the indicators, the CIO should give priority to allocating scarce investment funds to operating improvements before spending on strategic projects.

SOURCE: STRASSMANN INC.