The term value is an overused buzzword, slapped onto any product that lines a supermarket shelf. But for IT managers, this term means shifting the focus from the parts that go into making a product — or the processes behind producing a service — to the outputs. How do consumers perceive the value of the IT products and services they buy?

All too often, the business hears only the bad news coming from IT and not the good. As a result, some IT organizations today are perceived as being “optional,” and business units can, and do, take their IT business elsewhere. To secure budget for more investments, IT needs to show the value it provides to the business: How many outages (the most common failure and cause of the erosion of profits) have been prevented by new monitoring software and change management? How quickly did IT get a new service or solution out to market, adding to revenue? Measuring these IT outputs is the new way to think about ROI, and IT needs to articulate these types of value back to the business.

Guidance from the latest release of the IT Infrastructure Library® (ITIL® V3) is especially important in today’s marketplace. By focusing on measuring the right outputs from IT, managers can maximize their resources and effectively allocate their IT staff to produce more valuable and higher-quality products and services.

We discussed this topic with Michael Nieves, author of the ITIL V3 Service Strategy book and a partner at Accenture, and Jack Bischof, an Accenture senior manager. Their comments are included in this article.

I.T. FOCUSES ON OUTPUT

“Focusing solely on the craft that goes into the making of products and services ignores an important question: Are you making the right things to begin with?” says Nieves. “For example, does rapid service desk response create customer benefits? Or, does it generate frustration and incomplete work, because personnel move too quickly from one call to the next? The focus on efficiently managing the resources that go into work is known as the manufacturing mindset. The priority is to lower the unit costs of services by consistently doing the same thing over and over again. This is not wrong, but when a customer needs a shift, the service provider may fall into a management trap where internal efficiency is confused with effectiveness or external efficiency. For instance, what is less effective than an engineering team that efficiently churns out elegant system designs for the wrong service?”

The reason for this mindset lies in the fact that until recently, the prevailing industry in the United States was manufacturing. “The value chain, as taught in business schools, was presented as an assembly line metaphor,” Nieves says. “This model positions the customer as the last item on the chain rather than as the genesis of value creation. As a global economy, we’re only now really beginning to understand this thing called ‘services’ and its implications. One of these implications is the realization that it is easy to become confused about what matters to customers and fall into well-meaning activities focused on ‘business as usual — only better’.”

The implications go beyond business-to-business interactions. Whether consumers are using an ATM, making travel reservations, or interacting with the local cable installer, chances are that their sole encounter with a business is funneled through one department: IT. In today’s global economy, IT must be treated as a true business partner that helps the organization achieve its corporate goals. According to Bischof, “This means
identifying and designing services that enable articulated and non-articulated business outcomes, and making those services easily available and understood. These services need to provide a level of transparency in terms of cost/benefit and performance that has been common to businesses for centuries, but is relatively new to IT.”

**ITIL V3 HELPS I.T. LEADERS ADAPT TO THE NEW REALITY**

The marketing mindset is a key concept introduced in ITIL V3. From this perspective, the value an organization seeks to create is not in its internal technologies, processes, or any other abilities, but in how consumers perceive its products or outcomes. As the legendary Harvard marketing professor Theodore Levitt put it, “People don’t buy a quarter-inch drill. They buy a quarter-inch hole. You’ve got to study the hole, not the drill. The drill is just the solution for it.”

“In ITIL Version 2, there was a lot of language about effectiveness and engaging with customers, but the focus was generally on the inputs,” says Nieves. “When you have limited floor space, people, and computing capacity, the more efficiently you use your available resources, the more value you create. But value emerges when customers consume IT’s services in pursuit of their own outcomes. IT’s challenge is, therefore, to understand the jobs in customers’ lives for which they might use IT’s services, design a service and associated experiences to facilitate that job, and deliver it in a way that reinforces its intended use. Only then will customers seek and value that service when they need to get the job done,” Nieves says.

“The service provider can apply internal efficiency measurements and effect change only when the service provider comprehends what is effective in facilitating those outcomes. Locking organizational structures, measurement systems, processes, and technologies onto customer outcomes allows the service provider to better align internal efficiency measurements to external efficiency measurements,” says Nieves.

Business Service Management (BSM) is the most effective approach for managing IT from the perspective of the business. By definition, BSM is an approach for managing IT from the perspective of the customer. Organizations focused on business priorities in this manner can reduce downtime and service desk call volume, as well as improve call resolution rates.

Moreover, this approach enables IT decision-makers to start down the path of IT innovation by allocating time and resources for strategic projects, not just tactical ones, thereby moving closer to effectively facilitating desired customer outcomes.

**HOW TO MEASURE VALUE**

One of the most dramatic changes in IT is a shift toward a different type of measurement. Given the intangible nature of “value,” ROI is not necessarily the most appropriate metric. “The idea of value creation, particularly when dealing with intangible topics, is not a widget coming off of an assembly line,” says Nieves. “Over the past few years, we’ve realized that following ROI models restricts our thinking to that domain, and, in turn, restricts the opportunities available to us.”

ROI refers to the measurement of cash flows, but the problem is that value takes on many forms. “It comes from many sources,” says Nieves. “For example, how useful is this service or product? How do your consumers, internal or external, perceive the product or service? How easy is it to obtain? These are intangible, subjective questions that only the customer can answer. Value is different for everyone. Some people swear by their cell phones; others swear at people who use them.” Unfortunately, although these are important factors to consider, they’re abstract concepts that are difficult to quantify — and measure.

“Measurement is supposed to give us insight, whether it’s financial or otherwise,” Nieves says. “Its purpose is to give us something upon which to remove uncertainties and to make strategic decisions. It’s a tool for managers, offering a glimpse of something they didn’t know before. If managers have a financial metric, they’re going to make financially based decisions. But the argument we’re making is that there are other considerations to help remove risk and decrease uncertainty, and they’re not necessarily taken into account with an ROI analysis.”

Management needs to understand that the paths to new opportunities can’t always be justified with a first-order financial analysis; however, at some point intangibles need costs associated with them. A service exists only when it’s actually being consumed, so what’s the best way to approach value creation?

Although no single way to measure value will fit all cases, ITIL offers several paths to value:

> **Value on investment (VOI)** appears in the Continual Service Improvement book of ITIL V3. This metric is the total measure of benefits derived from soft benefits. Used alone or with ROI, it allows decision-makers to take into account those benefits that are usually considered intangible. Examples of these intangible benefits include the higher competency of
the IT department, increased business throughput, the value of compliance, improved business agility, and so on.


Measuring service value, or the sources of it, is addressed by two approaches to value:

- The cost associated with delivering an IT service (provisioning value)
- The total value to the business of that service (service value potential), which includes quantifying the practical application of the innovation when the value potential of a service is unlocked, and exceeds the expected utility of a service

These can be great metrics to use if several stakeholders or departments need to agree on the value of a service.

*Value for money* appears in the *Service Strategy* book of ITIL V3.

It is a rather informal measure of cost-effectiveness that compares one set of costs to the costs of alternatives.

*Return on value* (ROV) is used to help analyze factors beyond the strict rigor of ROI analysis, such as competitive, functional, process, relationship, strategic, and other values.

You may want to consider other measures that are based on accounting and finance practices:

*Return on investment* (ROI) is a financial metric that evaluates the efficiency of your IT investment. It is one of the more widely used methodologies that takes into account all costs and the measurable (tangible) benefits of the IT solution.

*Net present value* (NPV) is another financial metric that is used to appraise long-term projects. It measures the cash flows (excess or shortfall) in present value dollars to demonstrate the achieved (cash) return.

*Economic value add* (EVA) is the financial performance measure that estimates the true economic profit by identifying the amount by which earnings exceeded or fell short of the required minimum return rate, thus capturing the true economic profit of the enterprise.

Choosing the most appropriate measurement tool depends on your organizational goals and IT roles. For example, are you screening a new project? Are you measuring internal effectiveness? Are you evaluating a project that has never been done before? The motivation for doing the project dictates how you will begin the process for measurement. Keep in mind that rigorous, established financial metrics might not help you measure innovation. However, the more intangible variables can be difficult to measure. So what should you do? Make sure to avoid these pitfalls by clearly articulating your goals. See the organization through the eyes of your customers, and identify the outcomes that matter most to them.

Regardless of the technique employed, every IT manager should become comfortable with the various metrics and be able to articulate value and justify projects. Consider designating an expert within the department who can identify which metric to employ. If all else fails, seek a specialist outside your company. The success of setting the right metric and creating measurable value outputs on which you can take action will not only help you assess your current state, but also will guide your decision-making process and help you avoid costly, painful mistakes.

**VALUE CHECKLIST**

Follow a checklist when considering which metric to use, whether for your customer or for your internal IT organization:

1. First, define value for your organization. Identify the components of value that are most important. Compare these metrics to how you measured value two years ago. Remember, chances are that your value will continually evolve and not be the same over time.

2. Second, select the metric on the basis of your needs. Know whether you have available data to assess and to enter into the metric. If some value measurement sounds good on paper, but no data currently exists to measure it, then that metric might not be a good fit. For example, the cost of gathering data might outweigh the benefit of having a metric in place.

3. Third, create accountability. Who is responsible for gathering the data, and what steps are taken once the metric is available? Assign an owner to the metric and a team that will make decisions based on it, and hold them accountable.

4. Finally, establish several points at which the measure will be taken (since one measurement data point will not be enough). This will show a clear record of your value achievement. For example, if you projected an ROI before the project, measure it once the solution is deployed to see what value was realized and what is still left on the table, and continue measuring the primary benefit drivers that went into the original analysis.
CONCLUSION

Customers don’t buy products; they buy satisfaction of a particular need. Service providers can do more harm than good by answering questions about value for their customers. When you attempt to measure value using a financial metric, you could miss out on an opportunity to make a better product.

People don’t make every purchasing decision based on price alone. If you focus only on price, and it isn’t a factor in the purchasing decision, you haven’t measured value at all. If you step away from the product and take a higher-level view, you might find new ways to make a better product or to create a new one altogether.

Adopting the new mindset and shifting the focus from inputs to outputs will position your organization ahead of the competition. ITIL V3 will help guide you through the steps of measuring value. Solutions from a trusted vendor can support your quest to create a more strategy-focused IT department. Your vendor can also suggest several ways to measure the value of your solutions, so that you can see the highest benefits achieved and make sound judgments about the future of your IT department.

For more information about these solutions, visit www.bmc.com.

ABOUT THE AUTHORS

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