IT and Business Alignment in Retail

Benchmark Study 2009

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RSR
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Executive Summary

More than ever, retailers that strategically use information technology have the opportunity to turn technological advantage into real long term market gains. We find most retailers have abandoned the practice of internally developing their systems. Retail Winners especially have moved more aggressively towards commercially available solutions, particularly compared to their lesser performing peers. Nearly one-quarter of Winners also seem determined to overcome the initial and ongoing costs associated with integrating point solutions within their application portfolios, by pushing that responsibility on the solution provider rather than internal IT. Evaluating IT's ability to drive value to the business seems an elusive goal for retailers. The largest retailers in particular have lost their ability to regularly and consistently scorecard IT's value delivery.

Business Challenge

By a wide margin, Winners cite conflicting demands from different business departments as their top challenge. Winners' still want more from the IT organization. Line of Business (LOB) leaders want *their* issues addressed. What stands in the way, according to our Winners, is first of all, maintaining the legacy portfolio of production applications (48%). Laggards, in comparison, are plagued by a lack of strategic direction (71%). Their business leaders are far less engaged. In short, their IT functions are treading water, spending money and time just keeping legacy portfolios up and running.

Opportunities

Increasing the portfolio of packaged applications, along with renewed interest in a single integration bus are the best opportunities for improved IT value delivery. Unlike years gone by, when business users complained IT leaders lacked an understanding of the business, we see a shift. Savvy business leaders MUST have an understanding of what IT can do for them. Those retailers who outperform their peers clearly depend more on these business leaders to help set the technology agenda.

Organizational Inhibitors

Legacy application maintenance still takes up an inordinate amount of IT human and financial resources. IT is in a vicious endless loop. For almost half our respondents, the care and feeding of legacy portfolios consumes the operating budget, even as the capital required to integrate into those portfolios renders new solutions unaffordable. A pervasive lack of consistent IT governance creates additional challenges. One would expect the largest retailers, those with revenue in excess of $5 billion per year, to be the most sophisticated. Yet we find IT governance and measurements to be weaker among these retailers than even their smallest counterparts. The solution again, is more business involvement with IT. That includes more frequent and specific measurement tools and KPIs.

Technology Enablers

IT seems to still be like the Cobbler's child, automating all departments but its own. No doubt the drive for demonstrable business ROI acts as a gating factor in purchasing IT-specific tools. We can appreciate that the move to packaged applications should allow retailers to forgo sophisticated development tools…after all we expect to see internal systems development decline over time. But project and activity monitoring are central to evaluating how well IT is doing in delivering business value.

Bootstrap Recommendations

RSR has a 5-point set of recommendations to help retailers improve Business/IT alignment:

1) Ensure all line-of-business demands for IT services are considered within the context of the total corporate strategy. 2) Establish organizational accountability for IT at the top of the company, usually by having the CIO report directly to the CEO. 3) Insure the Executive Committee regularly reviews IT priorities and project status, moving beyond simply overseeing the IT spend. Rigorous ROI disciplines and successful investment in enabling technologies aren't mutually exclusive –they go hand in hand. 4) IT leadership must develop a systematic program to simplify the portfolio and to reduce development rework and production errors. 5) Align line-of-business specific processes to the corporate strategy; then map IT to business processes. It's in the company's best interests that IT be regarded as a pan-enterprise resource. The CIO has to encourage that point-of-view by saying "no" to provincial or "rogue" projects.

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SECTION I: OVERVIEW

WHY THE STUDY WAS CONDUCTED

In 2008, RSR studied the opportunities and challenges associated with business application delivery in retail. Although we hoped to uncover new ways retailers were exploring to more effectively deliver business applications, we actually found that the single biggest opportunity to overcome roadblocks wasn't about technology per se - it wasn't about best-of-breed packages vs. suites, or proprietary development vs. on-demand services (although those are important issues). Resoundingly, retailers across all revenue tiers agreed that ***the best way to overcome inhibitors and address challenges and opportunities is by empowering an Executive Committee to align IT priorities to corporate strategies, and that CEO and/or Board level support and the willingness of Line of Business leaders to take ownership of development efforts are the most influential factors to achieving better alignment***.[1]

Armed with that insight, RSR decided it is appropriate to study the issue of ***IT and Business Alignment in Retail***. Certainly, there have many cross-industry studies covering the topic. In fact, the "alignment" topic has been exhaustively covered for over 20 years. For example, in January 2009 CIO Magazine issued the results of its annual "State of the CIO" survey. As in prior years the survey of IT executives from many industries showed "aligning IT and business goals" is at the top of the CIO priority list, yet it remains a stubborn challenge. We wanted to see if retailers tracked to cross-industry studies, where challenges and opportunities are similar and different, and how ***Retail Winners*** respond to the need for effective IT/Business alignment processes.

As we noted in last year's study, retailers that strategically use information technology have the opportunity to turn this technological advantage into real long term market gains. This is true now more than ever, given the recession across the global economy. RSR has noted in recent studies that Retail Winners view times like these opportunistically, and seek ways to pull further ahead of lesser performing competitors, who defer investment in strategic initiatives in favor of expense reductions. We, of course, recognize that investment capital is a uniquely scarce resource in this current downturn. Nonetheless, companies can find themselves strategically *disadvantaged* by the failure of the IT function to deliver efficiencies that might enable them to focus on other, more strategic initiatives. In other words, not only can retailers find themselves not getting to those strategic initiatives, they will probably slip farther behind the pack as Winners up the anté.

IT and Business Alignment in Retail - Benchmark Study 2009 measures how retailers address the challenges and opportunities of aligning IT activities to business strategies, how the best performers stay in front of the competition by establishing business ownership of IT projects, and how they measure the value of IT investments.

METHODOLOGY

[1] *The Future of Application Delivery in Retail: Benchmark Study 2008, 05/2008, p.2, © RSR Research LLC*

RSR uses its own model, called the "BOOT," to analyze Retail Industry issues. This model is built with our survey instruments. An explanation of the methodology can be found in Appendix A.

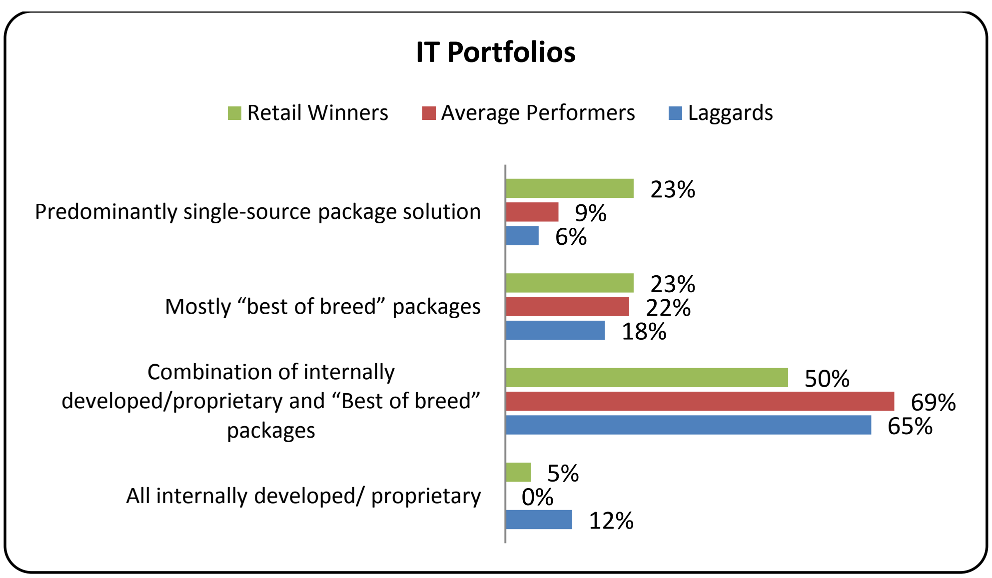
In our surveys, we continue to find differences in the thought processes, actions, and decisions made by retailers who outperform their competitors and the industry at large. This remains true even in our sagging economic climate. The BOOT model helps us better understand the behavioral and technological differences that drive sustainable sales improvements and successful execution of brand vision.

Defining Retail Winners and Why They Win

Our definition of Retail Winners is straightforward. Wall Street judges retailers by year-over-year comparable store sales improvements, and we do the same. Assuming industry average comparable store sales growth of three percent, we define retailers with sales above this hurdle as "Winners," those at this sales growth rate as "average," and those below this sales growth rate as "laggards" or "also-rans." It is consistent throughout much of RSR's research findings that **Winners don't merely do the same things better, they tend to do different things**. They think differently. They plan differently. They respond differently. It may be hard to talk about superior sales performance in an economic environment like we have today. Nonetheless, we believe past Retail Winners remain best-poised to recover as the consumer finds her footing again.

For example, in *Figure 1* we see that even though virtually all our respondents have abandoned the practice of internally developing all of their systems, Retail Winners have moved more aggressively towards commercially available solutions, particularly compared to their lesser performing peers in the adoption of single-source package solutions. Nearly one-quarter of Winners seem determined to overcome the initial and ongoing costs associated with integrating point solutions within their application portfolios, by pushing that responsibility on the solution provider rather than internal IT.

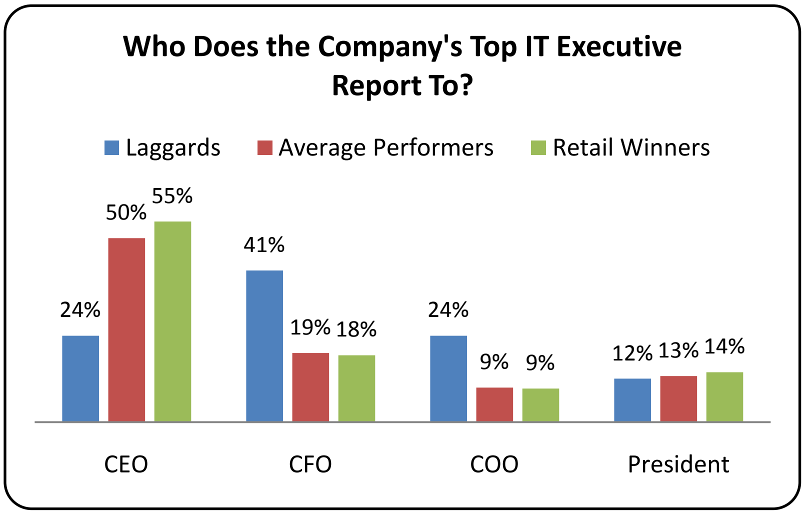
Figure 1:
Winners Favor Commercially Available Solutions



Source: RSR Research, April 2009

Responses to this year's survey uncover a relationship between IT reporting relationships and how the IT function is perceived. *Figure 2* shows that Retail Winners' CIOs more typically report directly to the CEO rather than a functional head such as the CFO or COO. Laggard retailers favor having the top IT executive report to the CFO.

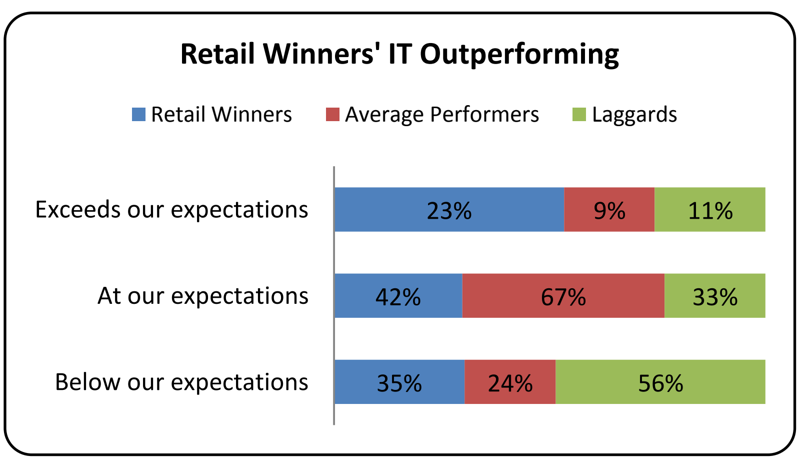
Figure 2:
Winners Align IT to the Top of the Company



Source: RSR Research, April 2009

With the IT executive organizationally aligned to the CEO, IT resources can be better aligned to strategic, rather than tactical, initiatives. With active CEO support, the CIO has a better opportunity to overcome line-of-business issues that could inhibit adoption of enterprise-wide solutions. So it should come as no surprise that more Retail Winners indicate their company's IT function *exceeds expectations*, more so than either average or under-performers (*Figure 3*).

Figure 3:
Who IT Reports To Impacts Performance



Source: RSR Research, April 2009

This begs the question: ***Does the way the IT function is governed create differences in performance, or are there other germane business issues driving business success***? The answer is yes, winners do a better job of ensuring that the IT function is delivering value through successful execution of business strategies.

Survey Respondent Characteristics

RSR conducted an online survey in February 2009 and received answers from 85 respondents. Respondent demographics are as follows:

- **Job Title**:

Senior management (CEO, CFO, COO)	11%
CIO/IT Leader	30%
(Line-of-Business Vice President/Director	16%
Manager	22%
Staff	9%
Internal Consultant	8%
Other	4%

- **2008 Revenue ($ Equivalent)**:

<$50 million	17%
$51-$249 million	23%
$250-$999 million	23%
$1-$5 billion	18%
>$5 billion	19%

- **Geographic Reach**:

	Corporate HQ	***Retail Presence***
South America	0%	8%
Latin America	1%	6%
UK & Ireland	4%	16%
Australia/New Zealand	4%	6%
Asia/Pacific (including India)	5%	19%
Continental Europe	8%	23%
Middle East or Africa	9%	19%
North America	70%	73%

- **Year-Over-Year Comparable Store Sales Growth Rates**:

Worse than average (“Laggards”)	23%
Average	44%
Better than Average (“Winners”)	33%

SECTION II: BUSINESS CHALLENGES

THE BUSINESS IS DEPENDENT ON THE IT FUNCTION, BUT…

The pace of business change in retail continues to accelerate. The entire value chain, from the manufacturers' outbound docks all the way to the point-of-purchase is experiencing pressure from two seemingly opposing forces: increased customer demand for specific goods and better service, vs. increasing pressure to shake every extraneous expense out of corporate operations. Resolving this seeming paradox – delighting the customer vs. reducing expenses – demands information. Delivering information assets in a way that informs decision making processes is critical to winning in retail. But unlike days past, the consumers of this information also exist outside the boundaries of merchandising and finance. In the past, "merchant princes" alone dictated what the manufacturer would make, what the retailer would sell, and what the customer would buy. Finance executives would do their best to rein the merchants in.

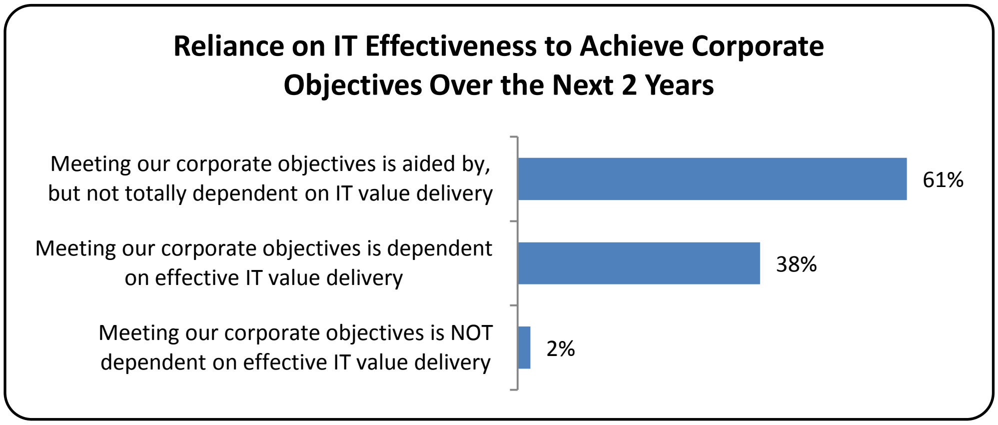
Times have changed. Today's decision makers also work at the point of interaction between retailer and the customer. This means the information asset has to be delivered in whole new ways to a much larger group of people than ever before. The IT department, traditionally the ugly stepchild of many retail operations, is right at the heart of the matter.

The IT executive in retail, as in most other businesses, is faced with many *perception* challenges, among them:

- IT spends a lot of money – often more than the profit of the company. This can make for very difficult P&L discussions;
- IT is often seen as not credible – many line-of-business leaders think CIO's are less than effective in managing and controlling IT expenses;
- None of the CIO's peers or stakeholders understand how much time and money it takes to keep IT operations running (maintaining a complex IT shop takes a bit more work than maintaining a home network);
- The language of IT is foreign to the business. Business people don't understand IT and they don't want to;
- It is difficult to measure the performance and cost of IT from a business perspective.

Notwithstanding these negative perceptions, expectations are high for the IT organization as a whole, and the CIO in particular. Over the past decade, Wall Street analysts and successful retail executives alike have touted the value of technology in supporting retail success. Retailers recognize the enabling nature of the information asset, if not the company's dependence on information to achieve its strategic goals (*Figure 4*).

Figure 4:
Retailers Know that IT Is Important



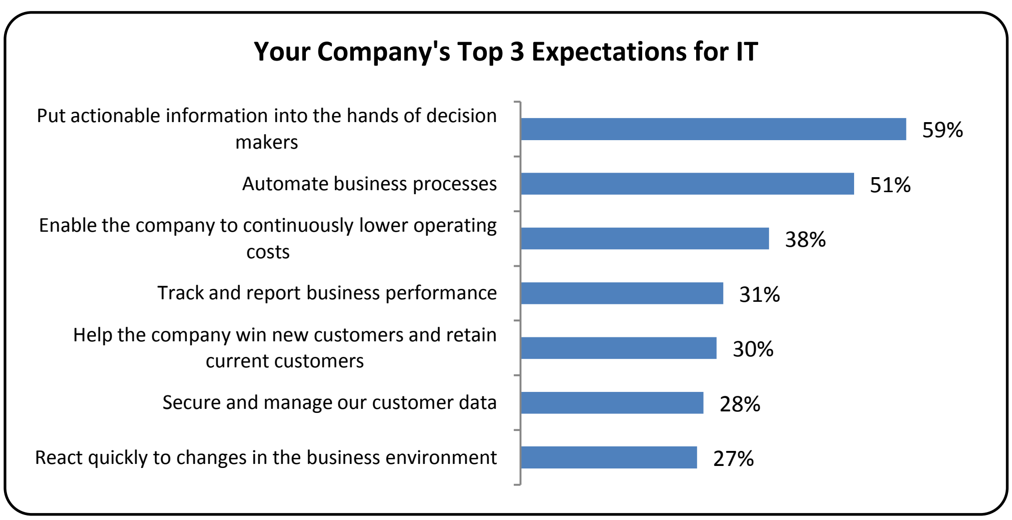
Source: RSR Research, April 2009

Although six out of ten respondents indicate that reaching their corporate objectives is *aided* by effective IT value delivery, a somewhat surprising 38% say that the company is *dependent* on it. This result is swayed by average performers; more of both Retail Winner and Laggards indicate that they are dependent on effective IT value delivery (42% and 43% respectively). As we will see however, Laggards consistently hamstring the IT function with poor governance practices that result in poor value delivery.

"Too Much To Do", or "Do What?"

A majority of retailers in our study indicate they have a clear understanding of the relationship between the need to "put actionable information into the hands of decision makers" and to "automate business processes" (*Figure 5*).

Figure 5:
Top of the List: Actionable Information



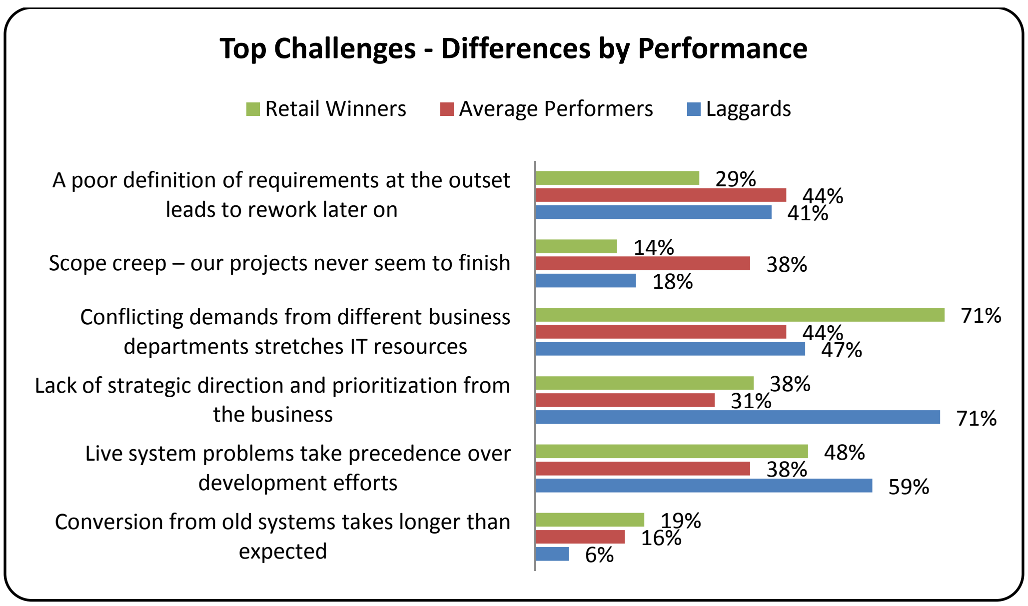
Source: RSR Research, April 2009

Digging deeper into those expectations, we see big differences between what Winners expect from their IT functions, and what Laggards want.

- By far, Winners place highest importance (83%) on putting actionable information into the hands of decision makers. Laggards on the other hand place highest importance on IT's ability to enable the company to continuously lower costs (75%). For Winners, that's a relatively low priority (28%). Given that more under-performing companies' CIO's report to the CFO (*Figure 2*), this finding is not surprising; cost control is the particular domain of the chief financial officer.
- Although Laggards place lower importance on providing actionable information to the right people (33%), they put more importance than Winners on automating business processes (50% compared to 44%). While Winners understand that getting the right information into the hands of the right people goes a long way to ensure better processes, Laggards expect to change processes to lower costs – without understanding that the ability to get the right information to the right people at the right time makes that achievable.

The stark differences between Winners' and Laggards' expectations of the IT function come into clear focus when looking at their top challenges (*Figure 6*).

Figure 6:
For Winners: Conflicting Demands



Source: RSR Research, April 2009

By a wide margin, Winners express that conflicting demands from different business departments is the top challenge. In their relentless pursuit of competitive advantage, Retail Winners use all the tools in their arsenal, including IT. Winners' clearly want more from the IT organization. Line of Business (LOB) leaders want *their* issues addressed. What stands in the way, according to our Winners, is first of all, maintaining the legacy portfolio of production applications (48%). And, Winners are not immune from lack of strategic direction, with 38% claiming that this is a challenge. Indeed, strategic direction from the top is the single best way to prioritize LOB agendas, as we will see later in the report.

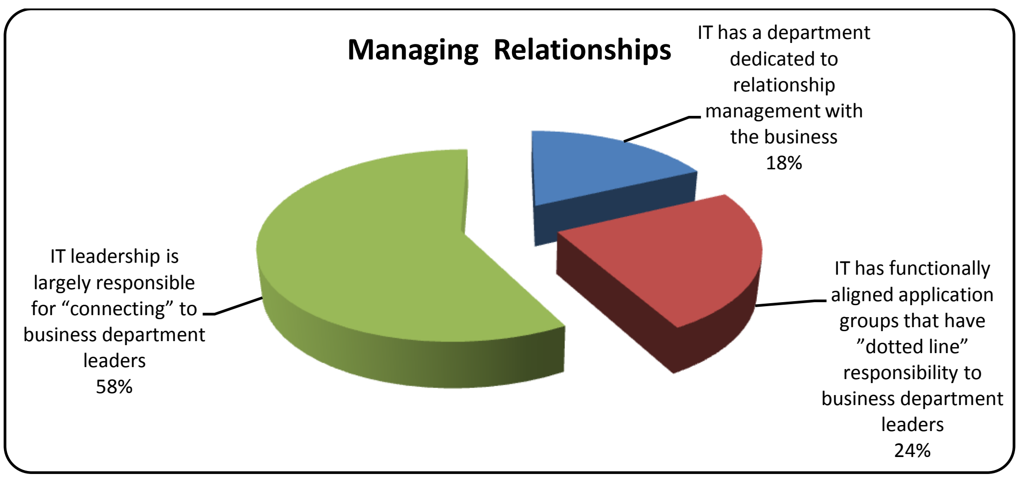
Laggards, in comparison, are plagued by a lack of strategic direction (71%). In short, their IT function is treading water, spending money and time keeping the legacy portfolio up and running.

The difference in the demand for IT services is further highlighted when looking at the backlog of different performance groups. In an exquisite irony, while 50% of Winners say that their backlog extends beyond 18 months, only 30% of Laggards make that claim. Laggards clearly aren't looking out too far ahead and Winners are stretched to deliver new value. Perhaps even more unfortunate, overall, the IT backlog is growing.

Unequal Partners

Given the importance of the IT function in achieving business objectives, it might be easy to assume that line of business executives actively cultivate the dialogue between their organizations and the IT management team. However, that is not the case according to our survey respondents. In fact, 58% of survey respondents say that "IT leadership is largely responsible for 'connecting' to business department leaders" (*Figure 7*).

Figure 7:
IT Leadership "Owns" the Business Relationships



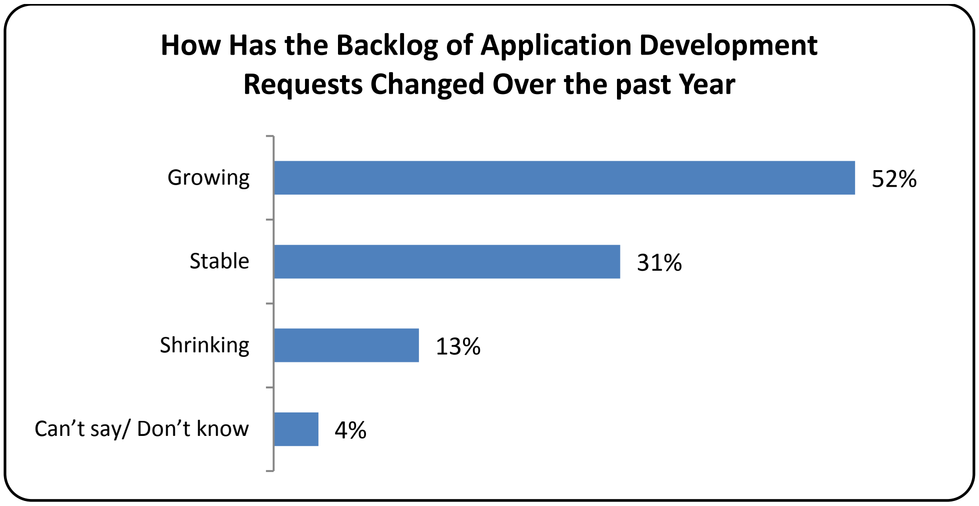
Source: RSR Research, April 2009

A Fix Needed – The IT Backlog Continues to Grow

The application development backlog continues to grow (*Figure 8*), and there's a general sense on all sides that IT could be doing better, but even the best are somewhat at a loss to figure out how to work collaboratively to enhance relationships.

In what is perhaps the most stunning indictment, **75% of retailers with revenue greater than $5 billion dollars a year report a growing backlog**. As we'll see later, when we talk about organizational inhibitors, this problem is driven by a variety of forces ranging from lack of governance, to tangled legacy application portfolios, to siloed departments each clamoring for their own solutions.

Figure 8:
Backlog isn't Getting Any Smaller



Source: RSR Research, April 2009

IT Must Understand the Business, but the Business MUST Understand IT

The late 20th century mantra that "IT just doesn't understand our business requirements" has grown dated. In fact, 21st century realities dictate that "Business leaders need to understand the value IT can bring to their departments." Just as IT can hamstring business operations with lack of expertise or understanding of the business, line of business leaders who either can't or refuse to understand the implicit value of technology in supporting their vast empires hamstring the efforts of their enterprise.

SECTION III: OPPORTUNITIES

The Value Of Information To Improve Performance

To improve corporate performance, retailers typically exercise four basic strategies:

First and foremost on most retailers' minds is the **relentless need to increase sales**. As RSR has noted in recent research, the focus of Winning Retailers in our current economic climate has been to keep the customers they have, not necessarily to look for new ones. Acquisition costs are high. Particularly, retailers are looking at price, assortment, and promotion optimization systems to keep the customers they have, and perhaps win new customers who abandon other retailers in their search for better value.

Another strategy is to **keep more of every revenue dollar**. This is typically described as the "operational excellence" agenda, and it's where retailers focus a lot of effort. Since the widespread adoption of Point of Sale scanning in the 1980's (which provided the opportunity to review specific information about demand by sku), retailers have made huge investments in technology in an effort to optimize the "buy" side of their businesses. They've standardized assortments and smoothed the flow of goods through the supply chain in an attempt to ensure adequate service, while at the same time trying to minimize both out of stocks and excess paid-for inventories. Although this work on the "buy" side of the business is ongoing (as we move from standardized to localized assortments), retailers have recently turned their focus to the "sell" side of their business. The goal is to ensure that the labor dollars spent in the stores are more focused on customer-facing activities. To that end, retailers are deploying workforce and task management systems, and operational metrics "dashboards" to closely and effectively manage the use of every labor dollar.

A third strategy has to do with **tying up less working capital**, and retailers are trying to address that issue by striving for a much faster-moving inventory pipeline. To support that objective, retailers and their trading partners are learning to collaborate digitally across an extended value chain, all the way from product design through product consumption.

Finally, Retailers seek to **introduce new and compelling value-creating offers for the consumer**. Traditionally, this has meant entering new markets or commanding more market-share from existing ones. But today it also means entering new selling channels. Consumers in greater numbers are engaging in cross-channel shopping, sometimes beginning and ending transactions in more than one channel. Retailing is no longer bound by the "traditional" four walls of the store.

In today's world, all of these strategies require the effective deployment of information technologies and optimized business processes that make the most effective us of the information that technology provides. Neither IT nor optimized business processes alone are enough to compete: they must work together.

Opportunity #1: Finally, Acceptance Of Packaged Applications

Long-time retail watchers have railed against retail chains' propensity to "roll their own" software. Stories are legend. Some retailers had home-grown payroll applications with dedicated staff on-hand to update the software whenever a new form came out or in response to tax changes by county, city or state. One multi-billion dollar chain drug store even built its own proprietary in-store network that persisted late into the 1990's.

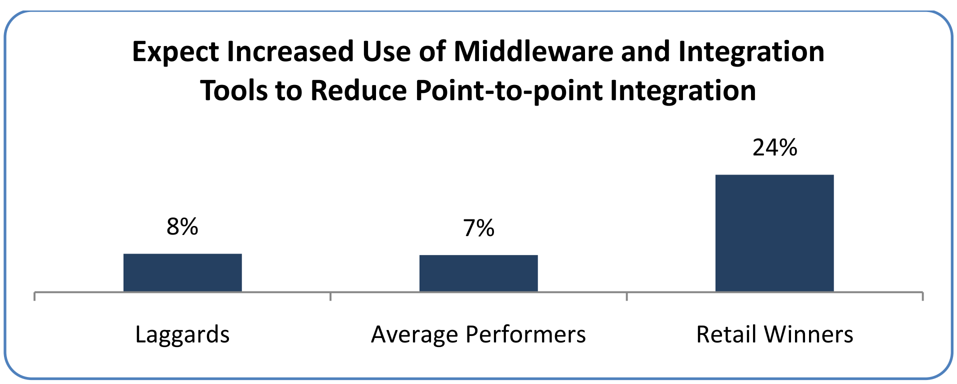
The causes of the legacy of homegrown technology have been well-documented. Up through the early 1990's, only "glass house" computers could scale adequately to handle retail transaction volumes, and packaged software for any department beyond finance and administration was hard to find for those computer systems. For their parts, retailers had a hard time distinguishing between critical business differentiators and cultural traditions, and would insist on heavily customizing any packaged application they did buy, eliminating the possibility of following vendor upgrade paths.

But times have certainly changed. Not only are there commercially available software solutions available today with rich capabilities that can be flexibly deployed without heavy modification, but those solutions are often designed in such as way as to facilitate integration with other software. Perhaps more importantly, retailers have come to understand that it's the combination of *people*, *process*, and *technology* that drives performance, and not just technology. This realization has caused retailers to ask themselves if proprietary processes in their operations, particularly in the non-selling functions, really creates value for the consumer – or just creates more cost.

OPPORTUNITY #2: GETTING ON THE INTEGRATION BUS

Retailers are hard-pressed to justify any project that doesn't drive immediate and obvious ROI. However, the somewhat mind-boggling development costs associated with continued reliance on point-to-point integration between applications (packaged or otherwise) can drive an IT-savvy business executive to distraction. Retail Winner business leaders, who seem to "feel IT's pain" are clearly helping drive a move to standardized integration buses (*Figure 9*).

Figure 9:
Winners Hopping on the Integration Bus



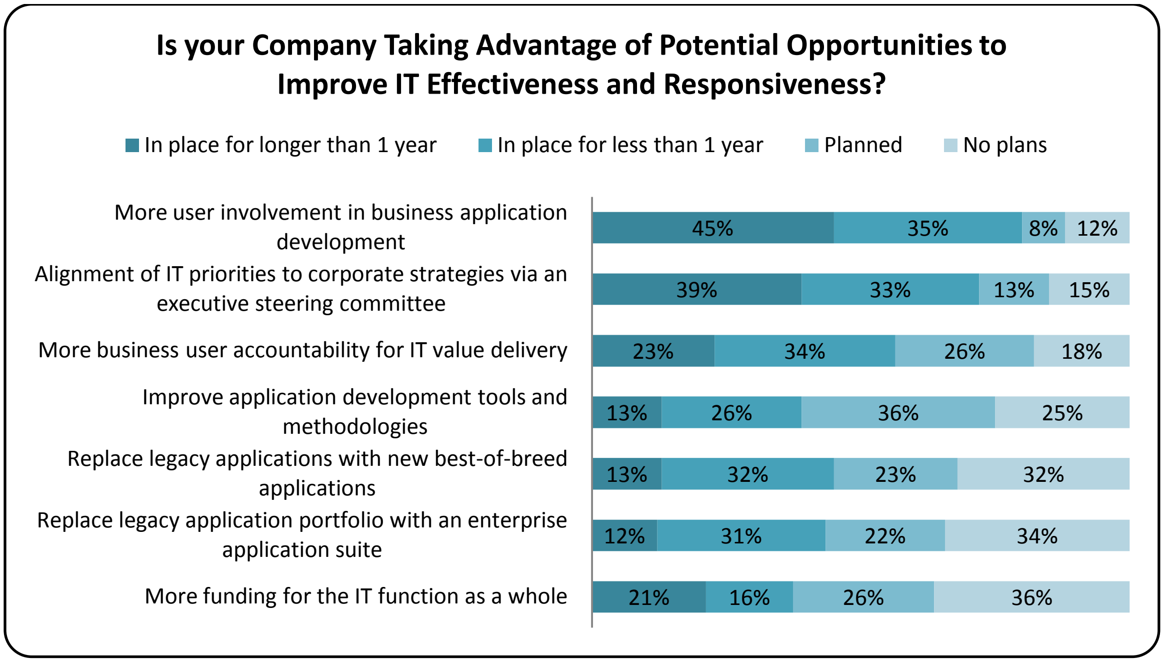
Source: RSR Research, April 2009

While 24% is not a resounding endorsement, it certainly represents a step forward, especially when coupled with the additional 24% that use a single-source package solution (*Figure 1*).

OVERALL: THE PRESSURE IS ON THE BUSINESS SIDE

When we look at perceived opportunities to improve IT effectiveness, we can see the pressure is clearly on business executives (*Figure 10*). As previously mentioned, IT alone cannot drive winning performance. Business processes and the skills of the people involved in those processes are just as important. While IT is responsible for delivering enabling digital assets to people and processes, and by automating routine transaction flows that allow businesses to scale up, the business itself must be responsible for designing how the company will operate.

Figure 10:
Business Involvement a Must



Source: RSR Research, April 2009

IT and business leaders alike report a movement to get users more involved in the process, to be more accountable for IT value delivery and to help align IT's priorities with corporate strategies. While we may talk a lot about adding funding to the IT function, business alignment to IT clearly trumps "throwing money at the problem" by a wide margin. While more than 50% of respondents have either recently moved to, or are planning to move to replace their legacy applications with either best of breed or end-to-end, 45% have been driving user involvement for more than a year, with another 35% undertaking recent new initiatives. Similarly, a majority have *something* in place to try to align IT and corporate strategies.

Given the general consensus that business must be more involved with IT-enabled value delivery, why is IT still falling further behind? As we'll see in the following section, the state of IT governance is abysmal at best, even and especially among the largest retailers, those who rely on IT the most.

SECTION IV: ORGANIZATIONAL INHIBITORS

LEGACY MAINTENANCE STILL DRIVING THE IT AGENDA

In survey after survey, retailers report that their number one internal challenge to moving forward with new technology initiatives is an overly complex legacy application portfolio. Integrating any new application requires so much time and money it practically destroys the Return on Investment (ROI) to be derived from new initiatives.

As we can see from Figure 11, IT is in a vicious endless loop. For almost half our respondents, the care and feeding of legacy portfolios consumes the operating budget, even as the capital required to integrate into those portfolios renders new solutions unaffordable.

Figure 11:
Legacy Maintenance Drains Time and Resources

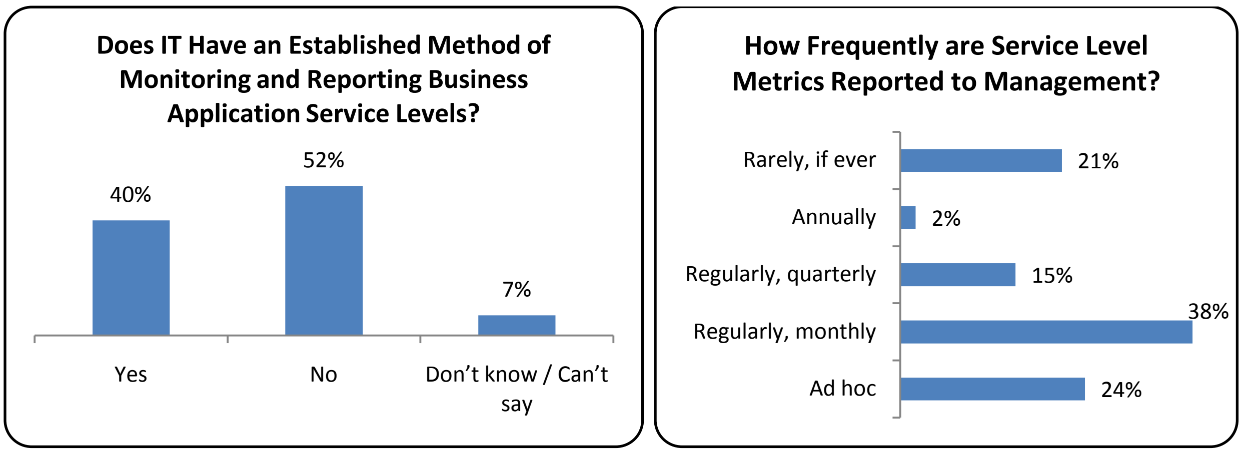
Source: RSR Research, April 2009

Similarly, most of our benchmarks show retailers reporting resistance to change among business users. A slightly lesser-known historical conundrum is IT's unwillingness to change. There are well documented stories across all industries of users purchasing technology by going *around* the IT group, rather than through it. IT has been unable to move fast enough, and adjust its own way of doing business to accommodate the speed of business change. In this study, less than 20% of respondents report this is a top-three organizational inhibitor. IT has changed. Now it appears the time has come for business users to step up to the plate.

THE STATE OF IT GOVERNANCE: WHAT YOU DON'T KNOW CAN HURT YOU

We've already established that in general, IT department rarely exceed expectations in value delivery. We can accept this at face value, but we also chose to try and understand the metrics driving the thought process. Sadly, we find both a lack of metrics, and lack of frequency among business users in monitoring those metrics (*Figure 12*).

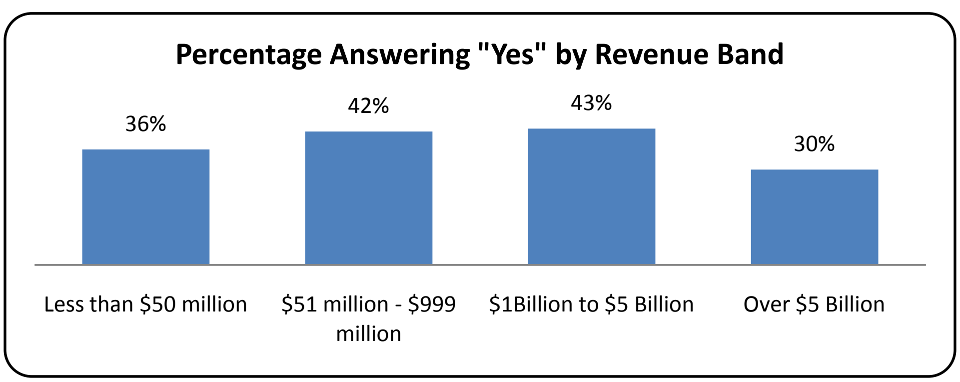
Figure 12:
A Lack of Metrics and Infrequent Review of Service Levels Blur the Picture



Source: RSR Research, April 2009

One would expect the largest retailers, those with revenue in excess of $5 billion per year, to be the most sophisticated. Their operations are the most far-flung, businesses the most complex. Yet we find IT governance and measurements to be weaker among these retailers than even their smallest counterparts. Figure 13 shows the percentage of respondents answering yes to the question "*Does the IT organization have an established method of monitoring and reporting business application service levels to business departments?*" The largest retailers clearly lag behind their smaller counterparts.

Figure 13:
The Largest Retailers Are Least Likely to Have Standard Reporting Metrics



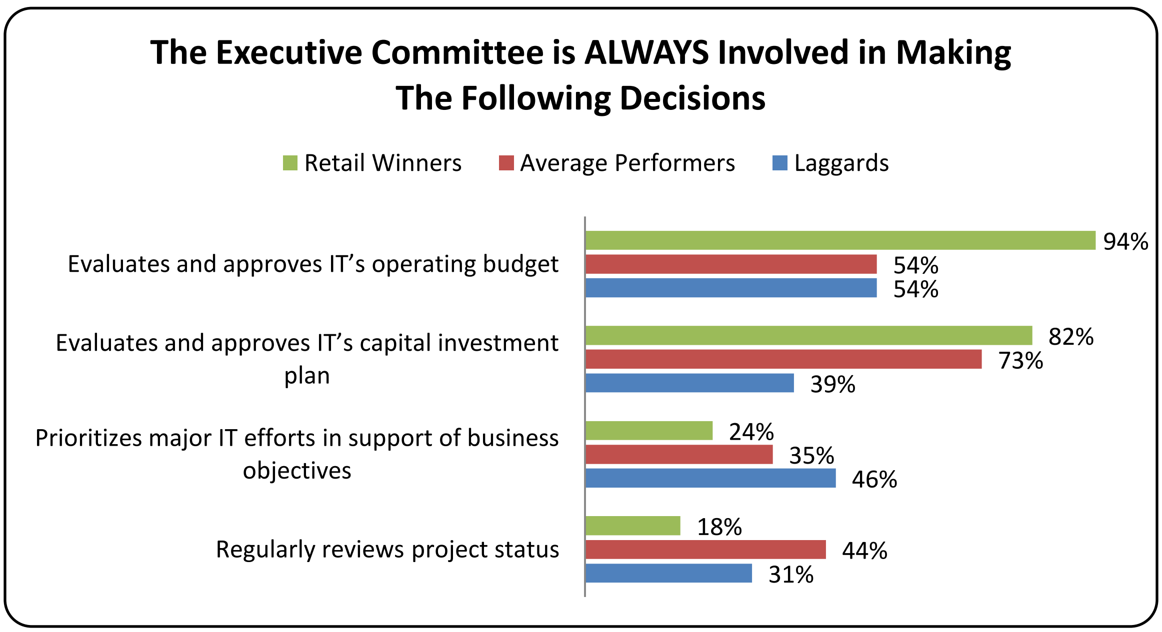
Source: RSR Research, April 2009

Regardless of whether retailers are large or small, given the lack of measurement and lack of frequency (almost half of respondent report service level metrics either "ad hoc" or "rarely, if ever"), it's not surprising to see backlogs growing, especially among the largest retailers.

DOES THE EXECUTIVE STEERING COMMITTEE REALLY STEER?

As we noted in this report's overview, retailers across all revenue tiers agree that an executive committee is essential to keep IT priorities aligned to corporate strategies. While it is true (especially for Winners) that the Executive Committee oversees IT spending, our survey respondents do not involve themselves in governing potentially conflicting business priorities for IT resources, (*Figure 14*). This is especially true of ***winning*** retail organizations. Since Winners also indicate conflicting demands from different business departments is by far their biggest business challenge (see *Figure 6*), the only plausible explanation for the Committee's lack of involvement is that they leave it to LOB executives and the CIO to work it out among themselves. While it may be convenient to depend on the professionalism of individuals (winning companies tend to attract winning executives, after all), this practice ignores the value of sound governance processes, and places success or failure of the IT agenda squarely on the shoulders of the CIO.

Figure 14:
The Executive Committee Limits Its Purview to IT Spending



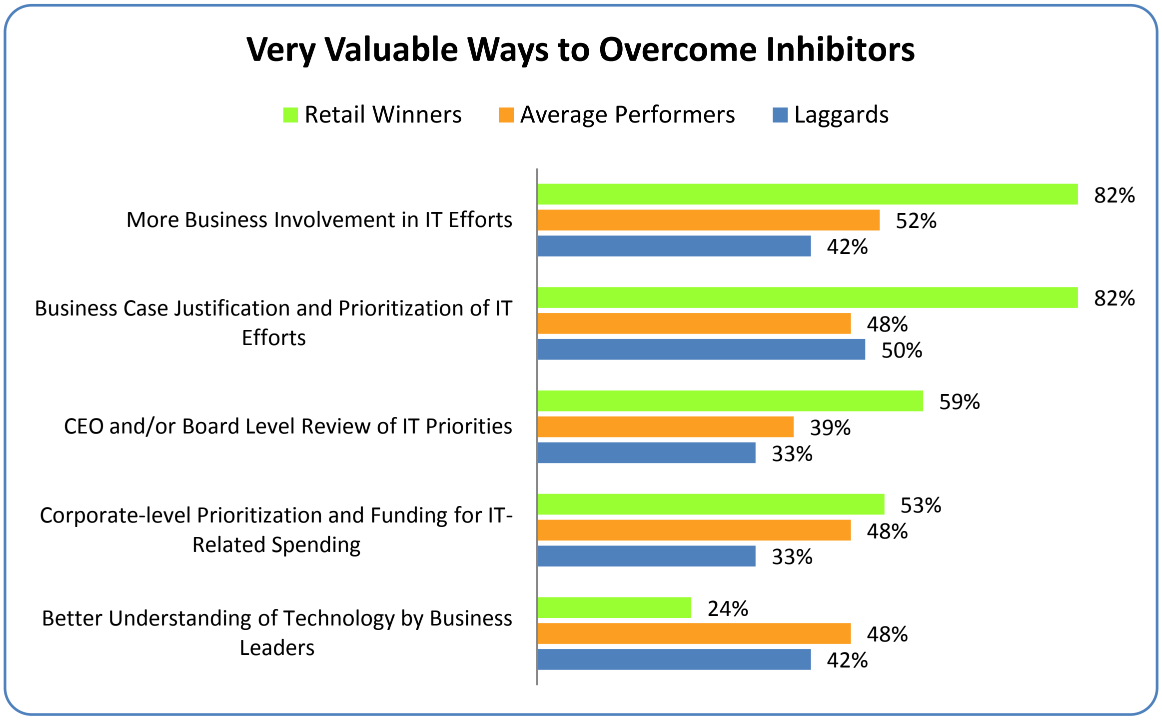
Source: RSR Research, April 2009

OVERCOMING OBSTACLES – GETTING BUSINESS EXECUTIVES MORE INVOLVED

Winners monitor IT performance more frequently than their peers. Forty-eight percent report service levels to management monthly, vs. only 25% of laggards, but this is really just a small piece of the puzzle.

Winners (both on the IT and business side of the house) have placed responsibility for overcoming inhibitors squarely in the hands of business users (*Figure 15*).

Figure 15:
Winners Depend on Business Leaders, Others Hope to Educate Them



Source: RSR Research, April 2009

By a wide margin, Winners are more likely to expect more business involvement in IT efforts and project justification and prioritization. Almost half of average performers and laggards, on the other hand hope to create more understanding of technology among their business leaders.

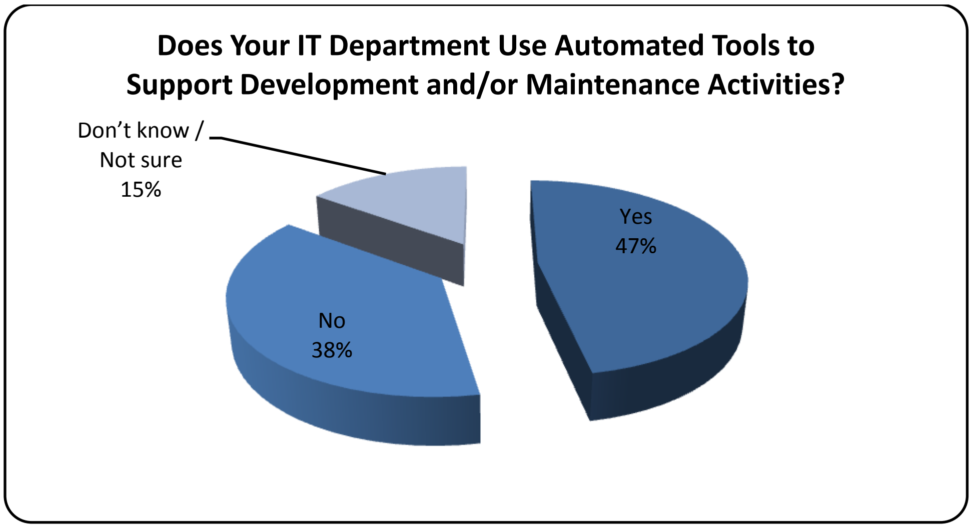
The message is clear. A consistently successful retail enterprise has business leaders who understand both the value technology brings to the table, and the "pain" of maintaining a portfolio of idiosyncratic legacy applications.

SECTION VI: TECHNOLOGY ENABLERS

IT AS THE "COBBLER'S CHILDREN"

There's an old saying that the cobbler is often so busy making shoes for his customers that he has no time to make them for his own children. So it seems to be with IT. The IT department is expected to deliver value by automating and optimizing business processes. Yet as we can see in Figure 16, less than half our respondents report using automated tools to support development and/or maintenance activities.

Figure 16:
Less Than Half Use Automation to Support IT Activities



Source: RSR Research, April 2009

On the surface, one might say given the current pressures for business ROI on every project, a penetration of nearly 50% is a pretty good ratio. However, a deeper dive reveals a toolset of 1980's vintage:

- 73% report using Change management tools
- 68% report using project management tools
- 50% report using both problem tracking and quality assurance/testing tools

On the flip side, we see only sporadic adoption of more modern tracking tools:

- 23% report using portfolio management
- 23% report using software delivery management
- 23% report using business management dashboards for IT project development activities
- 32% report having service level agreements between business departments and IT

We see negligible to no penetration of more sophisticated development tools:

- 9% report using visual process modeling tools
- 14% report using "agile" development methodologies

Some IT-specific Tools can Add Business Value

No doubt the drive for demonstrable business ROI acts as a gating factor in purchasing IT-specific tools. We can appreciate that the move to packaged applications should allow retailers to forgo sophisticated development tools…after all we expect to see internal systems development decline over time. But project and activity monitoring are central to evaluating how well IT is doing in delivering business value.

We touched on investments in integration buses in Section III (Opportunities). While an integration bus will not provide a quick fix for a legacy of tangled connectors, it can help IT use its maintenance dollars to simplifying future enhancements and integration points. In an economic era when “rip and replace” is unlikely, settling on a “bus for the future” accompanied by a three-year plan for replacement of existing integration points will provide a strong framework for future development.

We are, of course, cognizant that some applications may be so dated as to be unworkable with advanced tools. RSR does believe, however, that it’s important to have measuring tools in place to insure that IT delivers on its promise of business value.

SECTION VI: BootStrap Recommendations

For Business Executives

Align the IT agenda based on corporate strategies. Ensure all line-of-business (LOB) demands for IT services are considered within the context of the total corporate strategy. Establish organizational accountability for IT at the top of the company, usually by having the CIO report directly to the CEO. Retail Winners clearly understand the value of establishing such a clear line of authority and accountability.

Don't Just Manage the Money. It is not enough for the Executive Committee to approve and monitor the IT expense budget and capital plan – *it also needs to understand what the money is being used for and monitor progress towards the desired results*. According to virtually all our survey respondents, attainment of corporate objectives is at least aided by, and sometimes dependent on, an effective IT organization. Therefore, the executive team cannot afford to be passive when it comes to information technology. The Executive Committee should regularly review IT priorities and project status.

"You get what you pay for". IT's effectiveness is your responsibility too. RSR's research consistently shows laggards habitually short change investments in enabling technologies. Winners aren't afraid of spending to get what they want. Continuing to view IT only as a cost center is dangerous in today's hyper-competitive environment. Winners are using the information asset to win. But it isn't an act of faith to invest in IT; Winners place much more emphasis on strong business cases for IT investment than do either average or laggard performers. Rigorous ROI disciplines and successful investment in enabling technologies aren't mutually exclusive – in fact, based on our survey results, they go hand in hand.

"Own" the automation that makes your business processes work. Align line-of-business specific processes to the corporate strategy; then map IT to business processes. IT is an important enabler, but no amount of IT can fix a poorly designed business.

For IT Executives

Systemize the whole lifecycle – just like you preach to LOB leaders. IT organizations only have themselves to blame for failing to optimize the value delivery process from requirements through post-production operations. Despite vast improvements in the tools available to IT organizations to manage value delivery, and despite orders of magnitude more technical complexity crying out for a more proactive stance, most IT organizations only manage the "back side" of value delivery – tracking problems and changes once they've been introduced. Only about one-in-four IT organizations track value delivery from the "front end" of the process. The rest ask the business to trust them to deliver what they promise. Why should businesses believe that?

Simplify the portfolio. There is simply no reason, given today's tools, to continue to use point-to-point integration between applications. Companies that avoid investments in middleware don't understand the ongoing costs (both direct and indirect) of continuing to maintain custom integration points. Beyond integration technologies, retailers should seek out commercial solutions that offer integration capabilities, not only between their own products, but also to facilitate integration in a heterogeneous portfolio.

Choose a strategic partner that will help you achieve your goals. The CIO is uniquely positioned to bring outside ideas into the company, either by learning what other retailers are doing with technology or how other industries utilize the information asset. The best opportunity to find out how others are using information technology for strategic advantage is by seeking out strategic partners. Whether a software provider, network or database company, systems integrator, or management consultant, it's important to get that outside perspective, to help you achieve your objectives.

Systematically refocus a greater percentage on value-creation, and less on value-maintenance. The IT organization spends the largest part of the total budget running the existing solution set, rather than creating new value. A big part of that spend is in human assets, and specifically developers. The CIO should develop a systematic program to simplify the portfolio and to reduce development rework and production errors. Such a program should be multi-faceted, including demand and portfolio management and robust QA and problem tracking. One important way to reduce the internal maintenance load is to choose solutions vendors who deliver a pre-integrated portfolio of solutions.

***Use metrics that matter to the business*.** IT organizations are usually rich in technical metrics that help manage the technology. However, those metrics are esoteric, and don't mean anything to business users. The IT organization needs to report the quality of the business *services* it delivers.

***Don't undertake projects that aren't aligned to the whole-corporate agenda**.* The most important and hardest word to use in a CIO's lexicon is "no". But that's exactly the right response when the IT organization is under pressure for any LOB or IT-internal project that hasn't been vetted by the Executive Committee and prioritized in the context of the corporate strategy. "Doing favors" for LOB's only creates problems. Business leaders often forget to count the opportunity cost of any one-off effort; what isn't getting done while that's getting done? It's in the company's best interests that IT be regarded as a pan-enterprise resource. The CIO has to encourage that point-of-view by saying "no" to provincial or "rogue" projects.

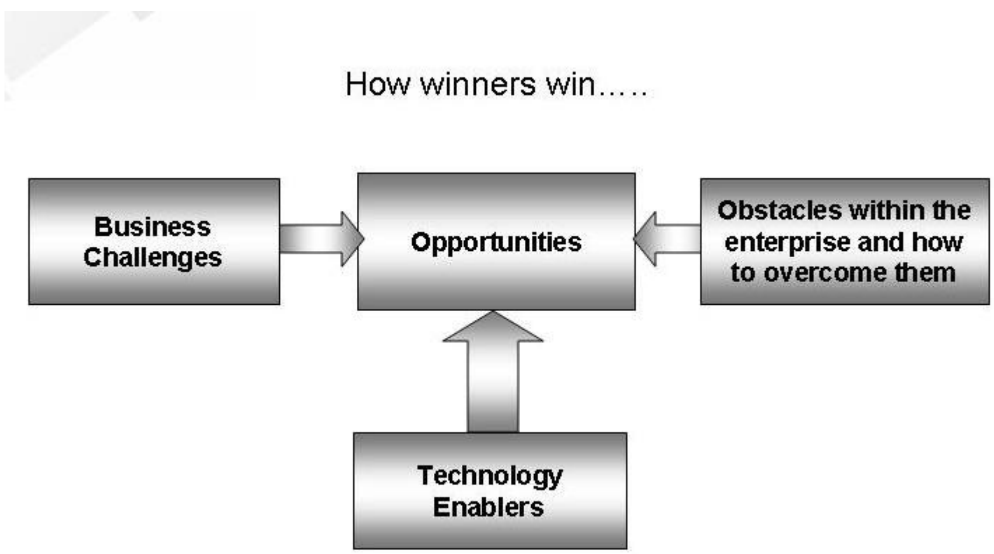
***It's not art**.* Despite its history, IT is not an artistic endeavor. Neither is it a scientific project. It *is* the thoughtful application of digital assets to solve business problems and to enable business processes.

APPENDIX A: THE BOOT METHODOLOGY

The “BOOT” methodology is designed to reveal and prioritize the following:

- **Business Challenges** – Retailers of all shapes and sizes face significant **external** challenges. These issues provide a business context for the subject being discussed and drive decision-making across the enterprise.
- **Opportunities** – Every challenge brings with it a set of opportunities, or ways to change and overcome that challenge. **The ways retailers turn business challenges into opportunities often define the difference between winners and “also-rans”**. Within the BOOT, we can also identify opportunities missed – and describe leading edge models we believe drive success.
- **Organizational Inhibitors** – Even as enterprises find opportunities to overcome their external challenges, they may find **internal** organizational inhibitors that keep them from executing on their vision. Opportunities can be found to overcome these inhibitors as well. Winning retailers understand their organizational inhibitors and find creative, effective ways to overcome them.
- **Technology Enablers** – If a company can overcome its organizational inhibitors it can use technology as an enabler to take advantage of the opportunities it identifies. Retail winners are most adept at judiciously and effectively using these enablers, often far earlier than their peers.

A graphical depiction of the BOOT follows:



APPENDIX B: ABOUT OUR SPONSORS

Borland
THE OPEN ALM COMPANY

Founded in 1983, Borland (NASDAQ: BORL) is the leading vendor of Open Application Lifecycle Management (ALM) solutions — open to customers' processes, tools and platforms — providing the flexibility to manage, measure and improve the software delivery process. To learn more about maximizing the business value of software, visit http://www.borland.com.

ORACLE

Oracle Retail is the number one provider of innovative and comprehensive industry software solutions for retailers - enabling organizations to serve their customers better by applying insight into daily business decisions for more profitable results. With software that provides supply chain, operations, merchandising, store systems, optimization as well as enterprise applications and infrastructure software, Oracle partners with the world's leading retail companies, including 20 of the 20 top retailers worldwide, to transform the economics of their businesses.

Oracle (NASDAQ: ORCL) is the world's largest enterprise software company. For more information about Oracle, please visit our Web site at http://www.oracle.com.

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APPENDIX C: ABOUT RSR

Retail Systems Research ("RSR") is the only research company run by retailers for the retail industry. RSR provides insight into business and technology challenges facing the extended retail industry, and thought leadership and advice on navigating these challenges for specific companies and the industry at large. RSR's services include benchmark reports covering the state of retailer technology adoption for topics ranging from merchandising and supply chain, store operations and workforce management, to customer-facing and multi-channel technologies. Custom research reports provide more in-depth views into topics of industry interest, and advisory services help retailers and technology vendors make the most of the insights RSR provides. To learn more about RSR, visit www.rsrresearch.com.