CIO DECISIONS

ALIGNING IT AND BUSINESS IN THE MIDMARKET ENTERPRISE

ezine

the outsourcing surge

IT outsourcing is on the rise, as are options for choosing a provider. Here, experts and midmarket CIOs alike offer their advice for partnering, onshore or off.

August/ September 2008 Volume 2

plus:

TechTarget
The IT Media ROI Experts

Editor's letter

One Word: *Unity*

I N THIS, OUR second ezine issue, we cover two topics: outsourcing and business intelligence (BI). Disparate topics, to be sure, with one chiefly supporting the bottom line and the other the top, yet they have something in common: unity.

That may not be the most intuitive concept, so hear me out. Outsourcing is the quest to offload either commodity or very specialized activities, so your staff can focus on work that truly adds value to your business. Meaning: achieve unity with the business. Oneness.

Business intelligence is often one of those value-adding activities. It harnesses your data, often from multiple sources, and with it presents a unified view of what's happening in the business. Unity of data, unity with the business, which can then react or proactively shift resources to improve operations or become more profitable.

Recently I've seen many examples of both. Using BI, Utz snack foods is now able to identify which routes salespeople miss during a given day (CIO Ed Smith deployed Information Builders' WebFocus). Forbes Media has increased subscription renewals by targeting its marketing campaigns using third-party data and a Business Objects BI system. If your company hasn't tackled BI yet, our coverage on pages 13-21 will give you other case studies and an overview of the major types of tools.

For outsourcing, our package of stories focuses on geographic trends and the approaches that many midsized organizations are taking. One is most certainly domestic, for small or specialized projects or organizations without the wherewithal to manage complex offshore contracts. Another is exploring options beyond India, which though still the leader continues to face labor shortage and other challenges.

Whether you employ IT outsourcing and/or BI, there is one more instance of unity that I have seen you share, and that's with each other, your midmarket CIO peers. Recently we held our fifth annual CIO Decisions Conference, and that was what came through loud and clear: As 200 of you met and helped solve one another's challenges, you were united in your effort to learn from one another, use technology to meet its potential, and make the right choices for your business. That unity is community, and one I hope you'll join with each issue of our ezine and daily on our websites, SearchCIO.com and SearchCIO-Midmarket.com. Isn't that what makes it all worthwhile? ∎

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the outsourcing surge

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inside:

High-Touch Projects Can Fare Better Onshore

For quick, short-term or specialized work, midmarket CIOs find local partners an easy choice.

BY MICHAEL YBARRA

SPECIALIZED WORK that needs to be done fast is often best done close to home. That's what Scott Juranek, vice president of technology at Cellnet+Hunt Group, learned when he needed to get a two-month IT project off the ground quickly.

Cellnet, which makes smart metering devices for utility companies, has 35 software developers in its IT shop. The job required some specialized expertise, however—and a fast turnaround. So the Alpharetta, Ga.-based company decided to outsource the project—to Minnesota.

"It just worked out that way," says Juranek, who notes that the company outsources a quarter to a third of its IT jobs at any given time. "We work with people overseas. But some things are easier to do with a local workforce. The ability to hop in a car and work face to face for a while is very helpful."

While outsourcing IT work to India and other overseas locations gets a lot of attention, many midmarket CIOs are finding what they need closer to home.

"Some jobs you just can't send offshore," says Kurt Potter, an analyst at Stamford, Conn.-based Gartner Inc. "When IT is strategic, you need feet on the ground. Clients want some skills onshore, same time zone, American-born language skills, high-touch call centers."

Cellnet, for instance, took its project to Saturn Systems Inc., an outsource provider in Duluth, Minn. (population: 87,000). Saturn, which caters to midmarket companies, says its rural-

> ## "We work with people overseas. But some things are easier to do with a local workforce."
>
> —*SCOTT JURANEK*, VICE PRESIDENT OF TECHNOLOGY, CELLNET+HUNT GROUP

based IT workforce is significantly more affordable than tech talent in a large city.

"We're targeting companies that can't afford to set up a real offshore operation or don't want to manage one," says Scott Risdal, vice president

of business development at the company, which is expecting a record year of growth. Business has been growing by a quarter to a third every year for the last four years, Risdal says.

COST NOT THE ISSUE

But CIOs say it's not so much the cost as the ability to ramp up quickly and launch short-term projects efficiently that makes domestic outsourcing an important tool.

"When we don't need higher-end skills, we can save money by off-shoring it," Juranek says. "But we have some pretty specialized needs. A project that needs to be done in less than two months is very difficult to take overseas."

Increasingly, overseas-based outsourcing providers are setting up shop in the U.S. to meet these needs. These aren't just sales or project management offices, but real development centers hiring local American workers. In May, for example, Brazil's Politec SA announced that it was going to increase its number of U.S. employees from 50 to as many as 800 over the next two years, opening development centers in Atlanta, New York and Miami.

And in the last year, two major Indi-

Domestic Bliss

AT THE Linc Group LLC, a privately held facilities service and maintenance company in Irvine, Calif., the CIO is a bit of a zealot when it comes to outsourcing. The Linc Group outsources most of its IT functions—application development, the data center and first-level calls—to the help desk domestically. The help desk work goes to TekSystems Inc. in Hanover, Md., and the data center is tended by Savvis Inc., also in Irvine.

CIO Greg Lush says it's worth it. "Dollar to dollar, it's probably a little bit more, but what you've done is shift responsibility. If you've got good partners and you do your research, you'll be fine," he says.

Lush's deep-rooted belief in the practicality of outsourcing centers on the value of making mistakes. "I believe that everyone makes mistakes; however, the person who has made more mistakes is probably wiser. In the case of outsourcing companies, they've made the same 15 on another customer. I want to use that experience."

There are other advantages as well. "If we need more throughput, I don't have to gear up. And if there's a decrease in capital spending and we don't have enough money, I don't have to fire people," he adds.

As to why The Linc Group doesn't outsource globally? It's simple: patriotism. "We're an American company, and we believe in the American way," Lush says. —SARAH VARNEY

an providers have announced similar plans. Tata Consultancy Services Ltd. is establishing a development center in Milford, Ohio, while Wipro Ltd. is expanding into Atlanta and three other cities. Each company expects to employ 1,000 Americans.

"You want your best people working your same time zone," Gartner's Potter says. "The A-team in India isn't going to work the graveyard shift to stay on your time zone. All the major providers are here now."

Domestic outsourcing rates, of course, aren't as cheap as sending the work offshore, but they can be cheaper than recruiting and hiring a full-time person for a short-term project or finding a specialized skill set.

That's what Pete Segar, vice president of technology at Ergotron Inc. in St. Paul, Minn., has learned.

"For us, outsourcing is necessary," he says, "but if we were just to ship a project over to India we'd have to provide project management, and that's almost as difficult as doing the whole [thing] ourselves.

"We can't just hand off a project to India and expect it to go well."

The company, which makes computer display stands, often has short-term projects that it needs to fire off quickly.

"It saves us money vs. in-house

UP NEXT TO OUTSOURCE? APPS

Companies that plan to outsource within the next six months are looking to a number of areas for savings. In order of potential, here are the areas most likely to move out:

▶ **Applications: Custom and legal**

▶ **Applications: ERP**

▶ **Network (WAN)**

▶ **Network (LAN)**

▶ **Data center**

▶ **Technical help desk**

▶ **Desktop**

NOTE: RESPONDENT BASE INCLUDES ORGANIZATIONS THAT CURRENTLY OUTSOURCE ONE OR MORE IT SERVICES OR HAVE PLANS TO OUTSOURCE IN THE COMING YEAR; SOURCE: GARTNER INC. SURVEY WITH 353 RESPONSES FROM COMPANIES WITH 1,000 OR FEWER EMPLOYEES.

because we'd have a guy working his butt off for three months, then sitting around for three months," Segar says. "You really can't attract top-notch talent for a half-time job. The guys doing this work I probably couldn't hire at Ergotron." ◼

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IT outsourcing totaled about $120 billion in 2007.

SOURCE: FORRESTER RESEARCH INC.

Outsourcing Your Data Center, Step by Step

This list of considerations will help you start building an action plan.

BY ELISABETH HORWITT

F YOUR INTERNAL IT ops are costing you an arm and a leg or your staff just doesn't have the juice to make the data center sing, consider outsourcing.

You certainly wouldn't be alone. A recent Gartner Inc. survey found that 42% of companies with a thousand employees or fewer had either fully or partially outsourced their data centers, while 28% are planning to do so within the next 12 months.

If this is an option for you, read on for 10 steps to outsourcing your data center—defined here as undertaking an ongoing contractual relationship in which an outside party takes over some portion of your day-to-day management of servers and responsibility for meeting service-level agreements (SLAs).

1. DRAW UP A SOLID GAME PLAN.

Determine up front what you want to outsource and why. Determine which systems and processes are strategic and what your company's core competencies are. "If something is a strategic competency and also a core capability, then it should probably stay in-house," advises Kurt Potter, a research director at Stamford, Conn.-based Gartner. If it is neither, it should probably be outsourced. If it is one but not the other, determine whether you can support it economically in-house, and whether you can find the right outside service provider.

2. BENCHMARK YOUR I.T. INFRASTRUCTURE.

Every major outsourcing provider has a benchmark that will help you see what your cost structure is versus its database, Potter notes. Gartner, The Hackett Group Inc., RampRate Inc., Compass Ltd. and Forrester Research Inc. are among the firms that will come in and assess how your data center's level of complexity and cost efficiencies stack up against the marketplace. They may also recommend cost-cutting strategies, such as virtualization, and help you decide whether outsourcing is the best strategy.

3. DETERMINE HOW SERIOUS YOUR DATA CENTER PROBLEMS ARE.

If you need a quick fix in critical areas like uptime, availability and cost efficiencies, outsourcing typically will get you there within months to a year,

Potter says. In contrast, an internal buildout can take two or three years, particularly if it involves new real estate.

4. CONSIDER RELOCATION.
If a data center resides in a big city, you're probably paying top dollar for space. Out in the sticks, IT experts and network service providers tend to be in short supply, and therefore expensive. Outsourcing enables you to pick an optimal location. "Many of the savings we find come from moving five or 10 miles out of New York, to New Jersey," says Alex Veytsel, principal analyst at Santa Monica, Calif.-based RampRate.

Data Center Trends
A majority of midsized organizations plan to outsource some or all data center operations within the next 12 months.

▶ *Do you outsource your data center, either fully or partially?*

5% Not sure/NA

28% Planning to do so within the next 12 months

42% Yes

23% No
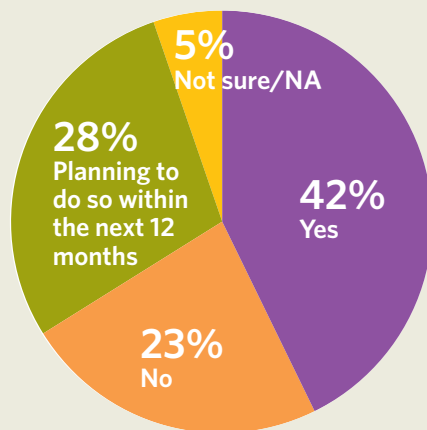
SOURCE: GARTNER INC. SURVEY WITH 353 RESPONSES FROM COMPANIES WITH 1,000 OR FEWER EMPLOYEES. DOES NOT TOTAL 100% DUE TO ROUNDING.

5. TAKE PROVIDER SIZE INTO CONSIDERATION.
For a midrange company, a big provider makes sense if what you want is basic commodity outsourcing services and guaranteed SLAs, Potter says.

However, if you want customized services and a lot of individual attention, "go with a second- or third-tier provider because your business is more important to them." Be aware, however, that smaller providers are more likely to disappear or get acquired. Do a thorough check of their financials, and make sure to provide for such contingencies in your contract. And, of course, check financial status carefully and talk to customers who hired the company for the types of services you need.

6. DON'T DISCOUNT MULTIPLE PROVIDERS.
If your systems and processes require expertise in a variety of business areas and technologies, hiring the best of breed in each area may make the most sense.

"If you want to change something down the road you're less trapped than if you're with one provider, plus you can get better pricing if there's competition," Potter says. The downside is that managing multiple suppliers can be tricky. You need good governance and vendor-management skills, he warns. "Someone needs to act as a traffic cop and integrator." You may want to hire a third party to play this role, or appoint one vendor as primary contractor.

7. CONSIDER THE OFFSHORE OPTION.

"You don't need a highly paid systems engineer to monitor your systems or provide support on the graveyard shift," Potter says. More and more companies are turning to India or Mexico, where they can get "the right staff at the right time and price," he adds.

8. DON'T FORGET THE GREEN FACTOR.

Green IT pays these days, both from a public relations and budget perspective. Good outsourcing vendors have the know-how and technologies to maximize computer output and availability with minimum amounts of space, cooling and power. Just make sure they pass on those economies to you.

9. NEGOTIATE SLAs UP FRONT.

Make them part of your evaluation criteria. And make sure you agree on the definition of uptime. Some vendors will promise five-nines uptime but count only downtime that's due to a power failure, RampRate's Veytsel warns. "If your cooling structure overheats and you have go to offline, or your network crashes and you can't reach your servers, that's a failure too." If you are new to outsourcing, consider hiring a third party to help set up the contract and statement of work.

10. SEE NO. 9, THEN GET IT ALL IN WRITING.

"You need to define what things you want to source and why," says Gart-

ner's Potter, not just to negotiate effectively with prospective vendors, but also to make sure everyone in your organization is on the same page.

Above all, make sure to include representatives from all the key factions in the process: upper management, business leaders, IT decision makers. And make sure that someone takes notes at meetings. "That way if a new CIO comes on board and wants to change things, you can explain why you made the sourcing decision in the first place," Potter says. ∎

Elisabeth Horwitt is a contributing writer based in Waban, Mass. Write to her at editor@ searchcio-midmarket.com.

On the Rise

Nearly all North American organizations plan to outsource a moderate or higher level of IT operations within two years.

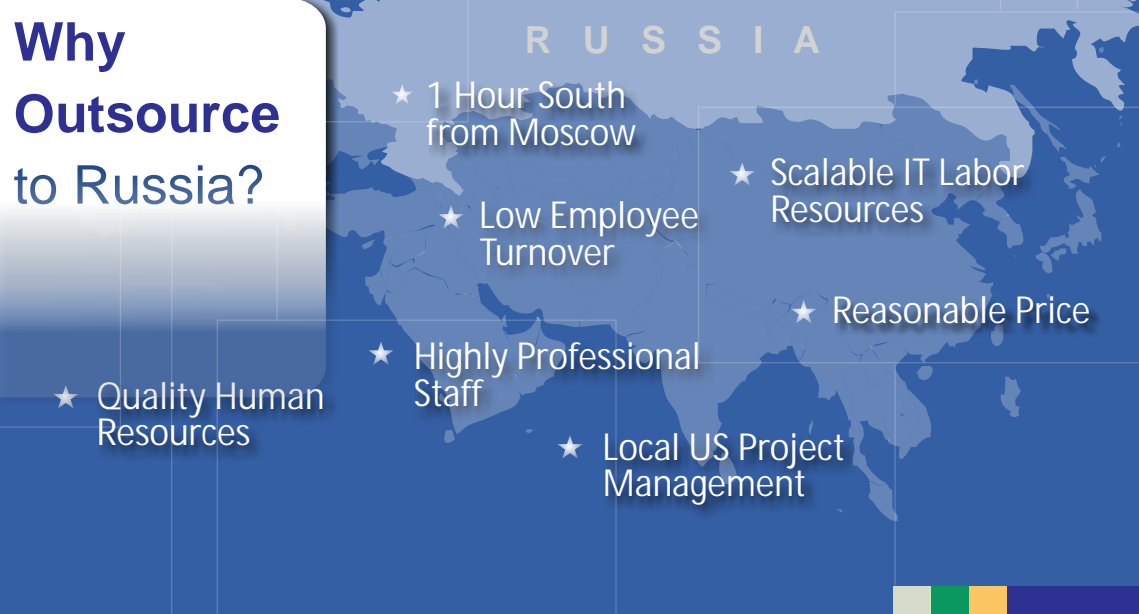▶ *How much IT outsourcing does your organization do or plan to do in the next 24 months?*

Legend: HIGH LEVEL, MODERATE LEVEL, LOW LEVEL
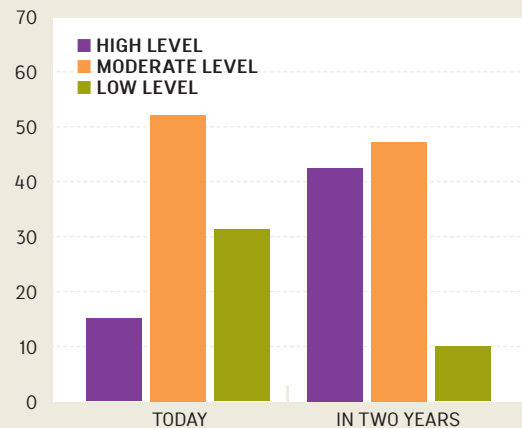
SOURCE: GARTNER INC. SURVEY WITH 191 RESPONSES FROM NORTH AMERICAN COMPANIES. DOES NOT TOTAL 100% DUE TO ROUNDING.

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Beware These Changes Afoot in India

Rising costs are leading some Indian companies to adjust contract terms or find other ways to economize. **BY LINDA TUCCI**

FOR YEARS, INDIAN offshore providers have dealt with rising wages, talent wars and the escalating cost of real estate on their native soil. Yet India's offshoring industry has managed to hold the line on rates for its Western customers.

But that's all changing, according to a report from analyst Stephanie Moore, who covers the offshore industry at Cambridge, Mass.-based Forrester Research Inc.

As the rupee appreciates against the dollar, the pound and the Euro, Indian providers are beginning to charge their customers more, Moore reports in "Understanding Indian Providers' Margin Defense Tactics," a report published in February.

While hourly rates have increased only minimally, "important price increases are often embedded elsewhere," Moore contends, advising CIOs to pay close attention to contracts as they come up for renewal.

"Embedded" price hikes show up in redefined workweeks or language about inflation and higher cost-of-living adjustments. These adjustments include clauses that allow for currency inflation, higher travel costs and "substantially" higher on-site rates, which tend to get less scrutiny than offshore rates. That last item can add up even when the worker ratio is 80% offshore to 20% onshore. Staff members sent by a provider to a customer site already command higher pay than the provider's offshore workers.

A WEEK'S WORTH OF WORK

Kashyap Kompella, advisor, global service delivery at Technology Partners International Inc. (TPI), an independent sourcing advisory firm headquartered in The Woodlands, Texas, says his firm is definitely seeing more belt-tightening measures among the Indian providers.

Service providers are "trimming the fat by eliminating nonperforming employees," Kompella says. And he concurs with Moore that providers are also becoming more conscious of the number of hours an employee works. "They want to ensure that they are not giving away free hours like in the past."

So managers are being asked to keep track of all the unbillable hours their teams spend on client work. Some providers have always charged for 8.75 or 8.8 hours per day, Kompella says. Now, more and more are asking for the 10% extra.

"By the way, it is not just the Indian providers who are doing this," Kompella said. "The foreign IT services firms operating in India have also started doing the same."

All that said, TPI has not seen a clear trend emerging yet regarding

Consider the Americas

WHILE THE RUPEE rises and competition for local IT talent heats up in India, you might try looking closer to home for your outsourcing projects. Outsourcing to Canada, South America and Mexico may lower costs—and offer a couple of other advantages.

Their smaller, more nimble outsourcing companies, for example, may give your project more attention. Plus some of the newer outsourcing sites—particularly Canada and Mexico—are likely to have IT personnel who are more familiar with American markets and have fewer cultural differences with the U.S.

Midmarket CIOs can find India a confusing, intimidating spot to outsource work to, says Ian Marriott, a research vice president at Gartner Inc. in Stamford, Conn. Sometimes that confusion stems from cultural differences.

"Culturally, particularly in Mexico, the clients feel they understand [and] are a little more attuned to the business markets in North America," says Paul Schmidt, partner and managing director at outsourcing consulting firm TPI.

"A lot of it is travel time, NAFTA, the free trade," he says. "And the whole visa issue is much easier if you're in Mexico."

Canada, though, may be more expensive now than in the past because of the declining value of the American dollar.

Schmidt says companies based in Brazil and Chile are also worth a look. A Gartner list of top outsourcing countries released last December also identified Argentina, Canada, Costa Rica and Uruguay as countries to look at in the Americas.

The Gartner report also found, however, that the lack of government support in some of these countries is restricting offshore development. Only Mexico rated "very good" in this area, followed by Canada and Uruguay. Canada and Mexico rated higher than Brazil in the quality of the labor pool. In terms of infrastructure, Argentina was the only country to rate lower than "good." Canada earned excellent marks in most categories, except in the big rate limiter: cost. —ZACH CHURCH

rates for Western customers. "Some providers have been able to get some small price increases when the contracts come up for renewal, while others have not been able to get any increases," Kompella says.

The redefinition of the workweek represents an interesting shift in how Indian providers are valuing work. In the past, Indian providers customarily billed clients for a set number of hours per week (40-45 hours), regardless of how many hours their salaried staff worked, Moore says. Now, however, providers are starting to either increase the number of hours counted as a week (from 40 to as high as 50 hours) or simply charging for the actual number of hours that salaried staff members work.

INFLATION BECOMES A FACTOR

CIOs need to ask their providers point blank how they are dealing with inflationary pressures.

"As sourcing and vendor management experts attempt to engage and negotiate with Indian service firms, it is important to make sure that these providers are at least trying to minimize the impact of inflationary pressures," Moore says.

The tactics used by the most adaptable of the Indian providers to minimize the impact of inflationary pressures include using tools to automate tasks that could be done manually by their billable employees; streamlining methodologies in order to deliver value to the customer more quickly; investing millions of dollars in

employee training to keep the pipeline of capable, efficient staff primed; building "reusable" code to cut development time; and offering outcome-based contracts, where customers hire the provider to deliver a service for a price, instead of paying by the hour.

G.K. Prasanna, senior vice president, technology infrastructure services at offshore provider Wipro Ltd., said the impact of the U.S. slowdown was constrained for most of 2007. That may well change in a recession, but Wipro has taken steps to "rationalize costs," including finding customers in new parts of the globe, such as Europe and Australia, and sending its work to cheaper cities in its own country and cheaper countries. Much of its business process outsourcing is done in the Philippines; Romania is a stronghold for infrastructure services, and Wipro has sent engineering work to China for a while, he says.

Operating margins are under pressure on both sides of the ocean, Prasanna noted. "It's not just India; the same applies to everybody else," he said, which means that Indian pricing, even under inflationary pressure, remains an attractive option for companies looking to cut costs.

"Pricing is an important point in companies choosing us, and we have no illusions about it. So as much as possible, we try to keep that part of the equation stable." ∎

Linda Tucci is a senior news writer for SearchCIO.com. Write to her at ltucci@techtarget.com.

BI:
the practical approach

Get business intelligence right, and revenue rises fast. But first you need to do your groundwork.

inside:

Latest BI Approaches Provide a Bottom-Line Boon

CIOs offer tools and tips for quick returns and doing it right. BY ELISABETH HORWITT

JEFF KUCKENBAKER became vice president of IS and technology at Star Trac at a watershed time for the treadmill manufacturer. In fewer than five years, the company's revenues had ballooned from $70 million to $200 million. With 3 million customers in more than 70 countries, Star Trac had been growing fast—too fast, in fact, for its information decision systems to keep up.

Like many midmarket companies, Irvine, Calif.-based Star Trac had data quality issues. Inconsistent and out-of-date versions of data resided in various applications and information silos. Almost 80% of reports were created manually and distributed via email, Kuckenbaker says. Not surprisingly, Star Trac's president, a former engineer who's very detail oriented, mistrusted the data he needed to make key decisions.

The former director of IS at The Black & Decker Corp., Kuckenbaker recognized that an effective business intelligence (BI) system was crucial for any firm to move forward with its growth strategy. However, he soon learned that a midmarket company like Star Trac had very different BI challenges than a Fortune 500 enterprise.

Star Trac business groups, which were accustomed to owning their own data, needed to be trained and reoriented to take advantage of the cross-functional, high-level information a BI system would provide. Furthermore, the treadmill manufacturer did not have the budget to go with a full-throttle BI deployment.

Star Trac chose Edge Series, a BI suite from Business Objects, an SAP company. The tool provides reporting and ad hoc data querying across information silos without the need

At Star Trac, business groups needed to be trained and reoriented to take advantage of the information a BI system would provide.

to deploy a data warehouse up front. Kuckenbaker hired a BI analyst to do data modeling and data definitions to ensure that the data was reliable, cleansed and consistent. Some hundred reports have been defined. The

whole company, including European sites, now uses the system.

The payback has already begun. Accurate, up-to-date supplier information has enabled the purchasing department to save tens of thousands of dollars per month, "by shortening time to receive supplies, holding suppliers accountable and keeping the chain tight so we don't have to pay extra freight," Kuckenbaker says.

Less quantifiable but equally important has been improved visibility into the order-ship-billing cycle, which has shortened time to payment

and improved customer satisfaction.

Going with Business Objects allowed Star Trac to buy what it needed while keeping within budget and maintaining a good TCO, Kuckenbaker says.

MIDMARKET OPTIONS
Other types of BI products geared to the midmarket include the following:

⊙ **Scaled-down versions** of major enterprise BI platforms, which typically provide wizards, prepackaged reports

A Blueprint for BI

WHAT'S IT TAKE to double a company's revenue in just two years? Reliable data. Just ask George Bock, CIO at Sole Technology Inc., an action apparel company in Lake Forest, Calif. Excellent upfront planning helps, as well.

Here's Bock's perspective on how to build BI right:

⊙ **Understand your pain points.** Figure out where your unreliable data is coming from, fast. At Sole Technology, different departments were using different tools.

⊙ **Talk to the business owners—marketing vs. sales, vs. accounting.** Each department has different needs. Get each group to "own" its part of the reporting process. "Otherwise, if something goes wrong, the finger always points back to IT," Bock explains.

⊙ **See what you already have in-house.** Sole Technology had inventory that wasn't being harnessed.

⊙ **Leverage non-IT resources.** Take advantage of the "techie" business owners at your company. These are the guys who go home and play with software for the fun of it. Ask them what they think about the tools with which they're playing. No one person can know everything in IT. —SARAH VARNEY

and dashboards, and support. Such products help midmarket firms get up and running within weeks. Vendors include IBM, SAP, Oracle Corp. and SAS Institute Inc.

○ **BI appliances,** which typically provide a basic data warehouse and prepackaged applications on top of a customized hardware platform. While a 10 or 100 terabyte (TB) BI platform typically runs to millions of dollars, BI appliances generally support at least 100 TB, and run between $100,000 and $700,000, according to Claudia Imhoff, president of Intelligent Solutions Inc., a BI consulting firm in Boulder, Colo. Vendors include Vertica Systems Inc., Infobright Inc. and Netezza Corp.

○ **Open source BI.** Imhoff cautions it isn't always free—customers end up paying the vendor or consultants to set up and design the system. Vendors include JasperSoft Corp., Pentaho Corp. and Actuate Corp.

○ **BI on-demand service providers,** which take over the work of extracting, transforming and loading customer data into a hosted data warehouse. End users can then access and analyze data using prebuilt, downloaded applications. The service provider should offer some kind of audit trail to track what happens to data when it leaves the customer's domain, Imhoff warns. Otherwise, the customer has no way of resolving data inconsistencies and can run into regulatory compliance issues as well.

Service providers include LucidEra Inc., Xactly Corp. and Oco Inc.

○ **Microsoft Excel,** which remains the BI tool of choice for many firms. Combined with SQL Server and a growing body of BI tools that Microsoft is integrating into Office, Excel can fill midmarket BI needs quite adequately, Imhoff notes. However, it's crucial that someone be put in charge of auditing and enforcing data-entry policies. "Unfettered use of Excel results in a spreadsheet hell of untrustworthy data," Imhoff warns.

MOVING TO A HIGHER LEVEL

According to a recent IDC survey, many, if not most, midmarket companies see themselves moving to a data warehouse-based BI system in the next few years.

Star Trac is entering that phase now. "My initial goal was to provide reliable, on-demand, enterprise-level operational reporting, to regain confidence in our data," Kuckenbaker says. "In this next phase, we'll be moving to higher levels of complexity with drill-down analysis. Our president understands the promise now: He wants that multisource, multidimensional viewpoint."

Imhoff adds: "The better you understand your customers, products and channels, the better you'll do in this economically stressful time." ∎

Elisabeth Horwitt is a contributing writer based in Waban, Mass. Write to her at editor@searchcio-midmarket.com.

Operational BI: Beyond Basic Analysis

CIOs are pushing out frequently updated data to generate revenue and increase profits.

BY MICHAEL YBARRA

THINGS WERE A bit blurry at 1-800 Contacts Inc. Managers at the online contact lens retailer didn't have a very clear vision of how well customer service reps were doing their jobs until well after the fact, when they ran manual reports on weekly numbers and posted the spreadsheets on the wall.

"We didn't have a real comprehensive view of the call center," says Jim Hill, data warehouse manager at the Draper, Utah-based company. "An agent wouldn't know there was an issue until the following week."

1-800 Contacts needed a better view of the business, so the company deployed a new business intelligence (BI) product that allowed call center agents to see their performance metrics—closing ratios, average order size, calls in queue—in real time.

"Each call center agent has the ability to see how they're performing," Hill says.

Business intelligence is nothing new for many midsized companies, but what's changing is the way firms are integrating the tools into their daily, minute-by-minute activities. This newest flavor is operational BI—as opposed to strategic or tactical, which may support launching a new product line or opening a new store.

"Operational business intelligence supports the day-to-day operations to generate revenue and increase profits," says Wayne Eckerson, research director at The Data Warehousing Institute (TDWI) in Hingham, Mass., who has surveyed companies on how

> ## "You don't want to provide the data faster than the business will consume the data. Fifteen minutes is plenty fast."
>
> —**JIM HILL,** DATA WAREHOUSE MANAGER, 1-800 CONTACTS INC.

they use BI. "Historically, that's not been the province of business intelligence; traditionally, BI has been used by analysts to do after-the fact analysis. Operational BI opens up a whole new landscape and drives greater value from the investment."

A survey by TDWI found that 53% of 423 companies are deploying BI in an operational capacity. Of those, 35% say they are still exploring the concept; 27% are in development; and 11% have recently deployed.

Another company having some success with operational BI is Eastern Mountain Sports Inc., an outdoor retailer based in Peterborough, N.H. A couple of years ago, the company deployed WebFocus, a BI product from Information Builders Inc., to create dashboards layered atop its midtier AS/400 platform in order to better manage inventory.

Then last year the company added a payroll dashboard that allows managers at its 80 stores to track staffing and sales in almost real time and make adjustments to put more workers on the floor at peak hours.

"We put up a set of graphics and management can see very quickly where staffing may be out of whack," CIO Jeff Neville says. "You can see hour by hour. We could have updated every 15 minutes. We chose a 24-hour cycle. We wanted floor managers on the floor, not slaving over reports. I didn't want them playing a video game. As part of their daily routine, they can review trends and make plans." Leveraging its earlier BI deployment, EMS was able to go live in six weeks with the new dashboard.

"With that information in place we could add different dashboards for very small money," Neville says. "For a very small investment, we're getting a very big payoff."

There are technical challenges. Operational BI requires a fundamentally different design and architecture; more frequent, intraday updating; and low-latency data.

Operational BI also requires a new way of doing business for some IT managers. The data warehouse can no longer be updated in a batch process during off hours. That means new architecture for data acquisition and delivery mechanisms and high-availability processes.

Queries must return in real time and reports must update dynamically, which requires capturing large volumes of data without degrading the performance of existing processes. That puts a premium on building resilient systems with good backup and recovery.

"When we created our data warehouse, we processed records early in the day," Hill says. "We had to layer on an additional intraday load every 15 minutes. We had to write two sets of ETL [extract, transform, load] processes and another layer of monitoring for SLAs [service-level agree-

53% of companies are deploying operational BI.

SOURCE: THE DATA WAREHOUSING INSTITUTE

ments]. For the most part, the tool set is working well. It's a matter of taking the concepts and building a smaller version to refresh."

Nevertheless, Hill says the biggest challenge wasn't technical but training: keeping the high-turnover workers up to date on the business logic used for incentives.

"The ultimate objective is to make the presentation of information so clear that it doesn't take a lot of understanding," Hill says. "It was a challenge because of the complexity of the incentives. We compare everyone working the same minutes, compute their scores so it's fair across the busy and quiet times of the day. We've achieved a good level of understanding of how they're performing today, but that link of how they're performing to earn their score isn't there. We're trying to fix that. All of the performance measures will stay the same—closing ratio, average order size—but we're looking at how to make the accumulation of scores much easier."
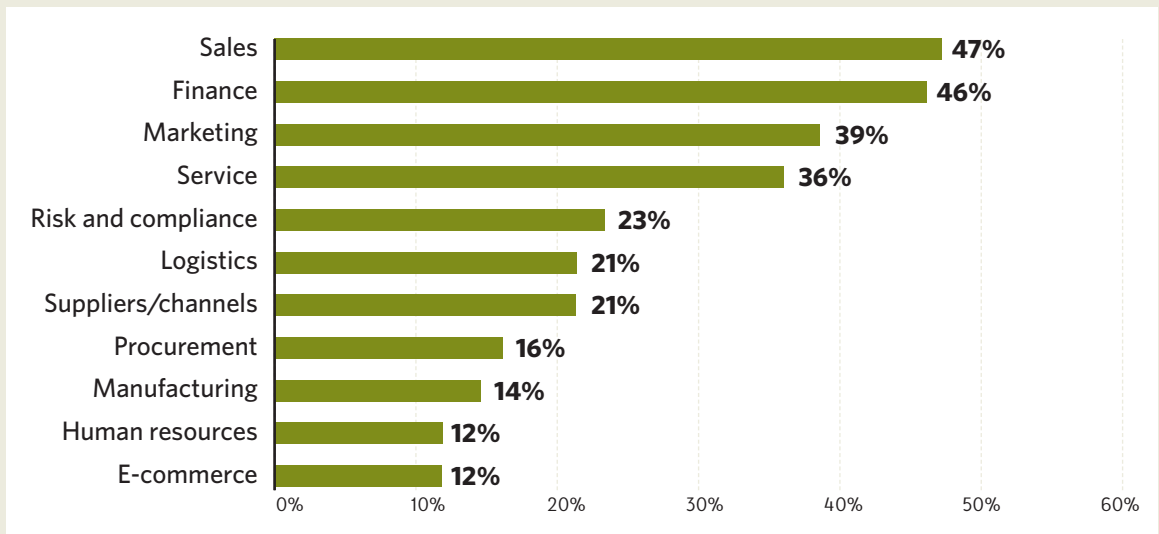
The results have been dramatic.

"We saw a lift of $50,000 a month in revenue; average order and closing size improved, while maintaining quality scores," Hill says. "We were able to increase closing ratio and average order size without sacrificing the customer experience."∎

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BI for All

Operational BI is utilized by sales and finance departments most often, according to 225 respondents to a recent survey. Marketing and other groups are right behind, however.

▶ *What functional areas does your operational BI environment support?*

Functional area	Percentage
Sales	47%
Finance	46%
Marketing	39%
Service	36%
Risk and compliance	23%
Logistics	21%
Suppliers/channels	21%
Procurement	16%
Manufacturing	14%
Human resources	12%
E-commerce	12%

SOURCE: THE DATA WAREHOUSING INSTITUTE

The Real Niel

Defining the Business Advantage

You've "captured" the data. But do you know what you're looking for? BY NIEL NICKOLAISEN

WE I.T. TYPES have been very successful at automating transactions and gathering loads of transactional data. We spend the bulk of our time running, revising, monitoring and, in general, supporting transactional systems and the data they generate.

With all of this data available, it makes sense that someone (usually one of those pesky business users) wants us to make the data more usable. But what constitutes usable? In my opinion, data is useful if it can be turned into knowledge, and that knowledge is useful if we can use it to make better decisions. Knowledge that does not improve decision making is trivia.

Over the years I have tried different approaches for working with the business functions to pin down what it is exactly that helps people make better decisions. I have tried report libraries, self-service reporting, dashboards, consultants and mind reading. Then, one day, it occurred to me. I could unlock the door if I asked (and got answers to) two simple questions:

◉ "What would you like to know?"

◉ "Knowing this, what decisions can we make?"

In practice, it is not quite this simple, but these questions start a great conversation that not only provides direction to my business intelligence designs, but also strengthens IT's relationship with the business.

For example, I recently helped a specialty retailer sort out what it wanted to know. This company had replaced its legacy business systems

NIEL
NICKOLAISEN

and was now swimming in transactional data. It had built an entire suite of custom reports but still did not have a better grasp on information. I customized my questions as follows:

- ⊙ What do you want to know about your customers?
- ⊙ Your products?
- ⊙ Your markets?
- ⊙ Your operations?
- ⊙ Your competitors?
- ⊙ If you had really good information about your customers, products, markets, etc., how would that improve your decision making?

We started from this somewhat idealized point and defined some decisions the company would like to make. For example, as a retailer, it wanted to make more targeted marketing decisions. It wanted its print, radio, television and Internet ads to be more effective in getting customers to make buying decisions. We then worked backwards to sort through what the company needed to know in order to make such decisions (in other words, what did it want to know about its customers).

As a group, we decided that the company needed to know what triggered a buying decision. That led us to brainstorm a customer segmentation survey. After surveying several thousand customers, we identified four segments, each of which responded to a different sales pitch. Some customers bought what was new; others bought what was on sale, for example.

With these segments in place, we then figured out ways we could capture the data that would identify these four customer types. This, in turn, back flushed, finally, into the transaction systems. What transactions did we have or did we need to identify to figure out which segment a specific customer belonged to?

We started to gather the information. The company turned the information into knowledge. This knowledge led to improved decisions about ads, store layouts, customer loyalty programs and product selection. In short, we got a more intelligent business. In parallel with that, IT looked like it was thinking beyond data. The marketing dorks and IT nerds actually found a common language and purpose. ∎

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► **10 tips for successful outsourcing**

► **Next Outsourcing Destination—Russia**

► **Outsource to a vendor or set up a your own subsidiary?**

About Solovatsoft: For 15 years, SolovatSoft has specialized in meeting delivery-timelines for software development projects for US companies. We have 250 highly experienced engineers, in two development centers in Russia. We employ US based Project Managers who work closely with our clients to ensure their projects are completed to their total and complete satisfaction. We have technical support, project managers and account managers located in San Francisco, Chicago and New York. Our clients have found it very helpful to have local project or account management in your office when needed, especially when starting a project and establishing the process of how we will work together. SolovatSoft offers a service by providing the immediate benefits of an offshore development center without any long-term commitments or large investments.