People, Process, Technology: The IT Opportunity for Profitable Growth

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- Adopting Business Applications in the Cloud
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- Digital Intelligence: Capturing the Value of Unstructured Data
- Collaboration Platforms: Managing the Opportunities of Web-based Business Practices
- Increasing Reuse to Improve Enterprise Performance

What Works? Surveying Best Practices
- The MIT CISR Value Framework—How Firms Achieve Superior Business Value from IT
- Transparency: A Critical IT Management Competency
- What we Measure Matters: Key Measures for Digitization

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Agenda

- Business Agility
  - Distinguishing agility from innovation
  - Designing a digitized platform for business agility
- UPS: Building a platform for package delivery
- Campbell Soup: Installing a platform for enterprise business processes
- Procter & Gamble: Evolving a shared services platform
- Toyota Europe: Building an information-based platform
- 7-Eleven Japan: Making a long-term commitment to profitable growth
- Recommendations for creating business agility
For Many Years IT Focused on Innovation

Corporate Data

Data
Applications
Technology Platforms

Corporate Networks & Infrastructure Services
A Digitized Platform: 
The desired result of a firm’s IT innovations

- Data Warehouse
- Shared Processes
- Shared Data
- Shared Applications
- Shared Technology
- Corporate Networks & Infrastructure Services
- Data
- Applications
- Technology Platforms
Business Agility and the Role of IT

- Business Agility: *The use of existing IT and business process capabilities to rapidly generate new business value while limiting costs and risks.*

- The goal of business agility is profitable growth.

- The Agility Paradox: Standardization is essential to sustained agility.

- Firms create opportunities for business agility by building and leveraging one or more digitized process platforms.

- Digitized process platform: *A coherent set of standardized business processes along with supporting infrastructure, applications and data, intended to ensure the quality and predictability of core transactions.*
Innovation and Agility Present Tradeoffs

- **Innovation**
  - Adding business value by doing something new with IT

- **Agility**
  - Rapid response to market opportunity
  - Reuse of existing capability

**The Digitized Platform**
- Standardized technology, processes and data
  - Accurate, predictable, world class
UPS’s Digitized Platform for Package Delivery

- Proprietary delivery apps
- Package Data
- Package Delivery Process
- DIAD/Handheld Device
- Internet apps
- Links to partners

Global Networks & Centralized Infrastructure Services
Diversified Firms Build Multiple Platforms

- Proprietary delivery apps
- Internet apps
- Links to partners
- UPS Logistics
- Supply Chain Solutions
- UPS Stores
- UPS Capital Corp
- Global Networks & Centralized Infrastructure Services

Package Delivery Process
Package Data
Package Tracking App
DIAD/Handheld Device

UPS Logistics
Supply Chain Solutions
UPS Stores
UPS Capital Corp

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Creating Agility at Campbell Soup Company

- $8 billion global manufacturer of soups, baked snacks, beverages and chocolates (e.g., Campbell Soup, Arnott's, Prego, V8, Pepperidge Farm, Godiva).
- In 2004 Senior executives approved Project Harmony: SAP R3 and related systems forming backbone for three enterprise processes: Account to Report, Order to Cash, Make to Ship.
- Four senior leaders serve as project sponsors: CIO, CFO, SVP for Supply Chain, and EVP for North America.
- Focus on Total Delivered Cost (TDC)
- Campbell generated returns of 13.7% in FY2008 compared to the less than 8% earned by companies in the S&P’s packaged food index.

Development of Campbell Soup's Digitized Platform

**Build the Technology Foundation**
- Centralize IT unit under global CIO
- Outsource operations to IBM
- Introduce disciplined internal IT processes
- Benchmark performance against prior performance and external standards

**Project Harmony in North America installs SAP**
- Define 3 global work processes
- Implement SAP R3 one site at a time in 25 North American locations
- Manage changes in roles, structures, and business processes
- Assign process owners and drive benefits

**Extend platform globally**
- Review unique requirements of businesses outside North America
- Implement Project Harmony one site at a time across Campbell sites

Toyota Motor Marketing Europe

- Sales growing dramatically:
  - 384,000 units in 1995
  - 727,000 units in 2002

- Toyota Europe structured as 28 independently managed country operations:
  - Cars and parts ordered from 9 European manufacturing plants
  - All product and spare parts inventories managed within countries
  - Little transparency of supply and demand
  - Different systems and processes in each country

- Operating loss FY 2002 ¥9.9B

Source: Presentation by Peter Heinckiens, Chief Architect, Toyota Motor Marketing Europe to IMD OWP Program, June 30, 2005.
Developing Toyota’s Information-Centric Platform

- Resisted urge to install single ERP and focused instead on sharing inventory data across 28 businesses.
- Designed product master file. First initiative (12 months) involved daily file transfer to headquarters with inventory data.
- Each business received daily report of inventory data across Toyota Europe.
- General managers used report voluntarily.
### Toyota Europe’s Outcomes

<table>
<thead>
<tr>
<th>Year</th>
<th>Units Sold</th>
<th>Revenue (¥)</th>
<th>Operating Income (¥)</th>
<th>Business Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>727,000</td>
<td>1,266B</td>
<td>(9.9B)</td>
<td>28 autonomous marketing companies, 9 manufacturing facilities</td>
</tr>
<tr>
<td>2004</td>
<td>898,000</td>
<td>2,164B</td>
<td>72.5B</td>
<td>European delivery lead time for vehicles reduced 35%, Inventory of spare parts reduced by almost 50%, Operating income: 3.5% of sales</td>
</tr>
<tr>
<td>2008</td>
<td>1,284,000</td>
<td>3,993B</td>
<td>141B</td>
<td>Reorganized as a single business: Toyota Europe</td>
</tr>
</tbody>
</table>
Building a Shared Services Platform at Procter & Gamble

- 170 year-old company. A $85 billion MNC. Products sold to more than 180 countries, marketing over 250 brands to nearly five billion consumers.
- Largest CPG company in the world
- Strong and consistent business performance*
- Nearly one-third of sales from developing countries; growing sales in developing countries 16% per year

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales</th>
<th>Net Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>56,741</td>
<td>6,923</td>
</tr>
<tr>
<td>2006</td>
<td>68,222</td>
<td>8,684</td>
</tr>
<tr>
<td>2007</td>
<td>76,476</td>
<td>10,340</td>
</tr>
<tr>
<td>2008</td>
<td>83,503</td>
<td>12,075</td>
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</table>

* Source: P&G Annual Reports and interviews of P&G executives in Asia and the U.S. by C. Soh, S. Kien Sia (Nanyang Technological University – NTU) and P. Weill.
Procter & Gamble’s Shared Services Platform

250 Brands

- Brand marketing
- Product and service innovation
- Service delivery

- Employee services (pay, benefits, policies)
- People management (compensation, relocation)
- Facilities (office moves, mail, fitness centers)
- Meetings (rooms, technology support)
- Travel (booking, expense accounting, credit cards)
- Purchasing (strategic sourcing, supplier relations)
- Financial Services (purchase-to-payment, financial reporting)
- Consumer Solutions (prime prospect research, CRM systems)
- Customer Solutions (shopper intelligence, in-store action planning)
- Initiative management (technical package and materials design, package artwork process)

7-Eleven Japan — An IT Savvy Next Gen Retailer

- Highly evolved IT–enabled business model
  - Most profitable Japanese retailer
- 12,034 stores in Japan, 33,913 stores worldwide
- 70% of all products sold are new each year in each store
- Each store clerk makes local decisions based on centrally designed systems and processes—hypothesize and test new product selections
  - Counselors visit each store twice weekly
- Total information system: 70,000 nodes
  - Links stores, head office, suppliers, distribution centers
- Digitized processes allow stores to order and receive fresh foods three times a day
- Emphasis on training and mentoring all employees
- Gross margins per store have increased from 5% to 31% from 1977 to 2008 and stock turnover has decreased from 25.5 to nine days
- “It’s not enough to exchange information. The information has no value unless its properly integrated by the franchisees and makes them work better.”
  —Toshifumi Suzuki, CEO

Average Stock Turnover Time, Daily Sales and Gross Margin per Store

| Period ended | 77.2 | 78.2 | 79.2 | 80.2 | 81.2 | 82.2 | 83.2 | 84.2 | 85.2 | 86.2 | 87.2 | 88.2 | 89.2 | 90.2 | 91.2 | 92.2 | 93.2 | 94.2 | 95.2 | 96.2 | 97.2 | 98.2 | 99.2 | 00.2 | 01.2 | 02.2 | 03.2 | 04.2 |
|--------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Average stock turnover time per store (days) | 25.5 | 22.0 | 20.1 | 17.8 | 14.0 | 13.0 | 12.0 | 12.2 | 11.1 | 10.0 | 10.6 | 10.0 | 9.4 | 8.9 | 7.0 | 7.7 | 7.9 | 7.7 | 7.5 | 7.4 | 7.7 | 8.0 | 8.3 | 8.4 | 8.7 | 9.7 | 9.7 | 9.8 |
| Average daily sales* | 3,686 | 3,966 | 4,149 | 4,319 | 4,639 | 4,321 | 4,819 | 5,020 | 5,081 | 5,284 | 5,456 | 5,640 | 6,290 | 6,690 | 6,820 | 6,690 | 6,760 | 6,960 | 6,820 | 6,690 | 6,760 | 6,960 | 6,820 | 6,760 | 6,960 | 6,820 | 6,690 | 6,760 |
| Average gross margin* | 24.0 | 24.3 | 24.0 | 25.0 | 25.0 | 26.4 | 26.0 | 27.2 | 27.4 | 27.7 | 28.0 | 28.3 | 29.6 | 28.9 | 28.8 | 29.0 | 29.3 | 29.4 | 29.8 | 29.6 | 30.0 | 30.3 | 30.4 | 30.3 | 30.0 | 30.5 | 30.6 |

Source: Seven Eleven Japan, “Corporate Outline 2004.”
How Top Firms Build Business Agility

- Define sacred transactions—what’s not changing.
- Debate the architectural implications of every significant IT investment decision.
- Articulate measurable benefits of every major business initiative and assign accountability for achieving those benefits.
- Remember to leverage the platform for business agility (short-term growth) while innovating off the platform for long-term growth.
- Invest in your people!
MIT CISR Summer Session 2010
Generating Business Value from IT: Leadership Challenges in a Digitized World
~ A series of five one-day workshops on how to make IT a strategic asset

Monday, June 14
Maximizing Business Value in IT Savvy Firms

Tuesday, June 15
IT Leadership in a Business Transformation

Wednesday, June 16
Driving Competitive Advantage Through Agility and Innovation

Thursday, June 17
The IT Unit of the Future: New Technologies, New Designs

Friday, June 18
Engaging All Executives in IT Decision Making

Workshop Location:
MIT Sloan School of Management

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