



How to pull out
of an information
technology tailspin

IT-powered growth

By David Shpilberg, Steve Berez and Thomas Gumsheimer

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David Shpilberg is a partner with Bain & Company in New York and leads Bain's IT Practice. Steve Berez and Thomas Gumsheimer are Bain partners in Boston and Munich, respectively, and senior members of Bain's IT Practice.

How to pull out of an information technology tailspin

With interest rates hovering near 40-year lows, business growth for real estate lenders was brisk. But at a leading regional US bank, the mortgage unit wasn't delivering its expected lift. Problems that had been building for some time became blazingly apparent: The bank's information technology organization, perceived as having failed to deliver on a string of projects, had lost the confidence of the senior executive team. IT spending had fallen 40% below the industry average. When mortgage lending took off, the bank's aging systems lacked the capabilities needed to quickly match competitors' quotes and programs. Frustrated, the bank executives had no choice: the IT team was cleared to build the necessary mortgage system—in a \$100 million multiyear project.

Like pilots who fly through bad weather and lose all sense of the horizon, companies can slip unsuspectingly into a downward technology spiral. Trouble usually starts with a chain of miscalculations that end up clipping IT's wings. An IT project veers off course, undermining confidence. Investment in IT falls, and under pressure to get new offerings quickly to market, IT infrastructure consistently takes a back seat to simply getting new features out the door. Eventually, the organization starts to view IT as a hindrance rather than a help in hitting growth targets.

Buckle up—there's turbulence ahead

To better understand how IT contributes to revenue growth, Bain & Company recently surveyed 362 senior business and IT executives around the world. The results showed that the vast majority—more than 70% of

the respondents—agreed that IT spending is essential for growth. Yet, most struggle to realize IT's potential in their companies; 60% of the respondents agreed that IT has been inhibiting their growth. (See figure 1.) Even among IT *believers*, 29% report that their IT capabilities today actually inhibit growth in the majority of business areas. Said one senior executive: “We believe that IT can enable growth—but it's not working for us.”

The IT spending levels of the believers and those of the companies that actually *achieve* their IT-led growth targets provide one clue to the cause of thwarted ambitions: lack of commitment and investment. The believers devoted 4.6% of company expenditures to IT investments, versus 7.4% for the achievers.

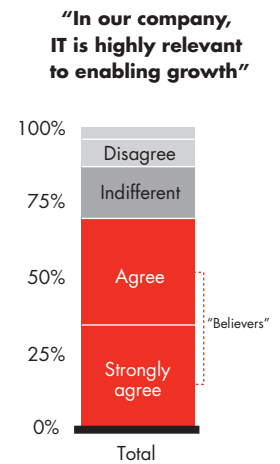
Why do organizations lose their IT bearings and knowingly inhibit their ability to grow? A series of in-depth interviews with senior corporate executives, including chief information officers, led us to the answer: Over and over, the executives described a subtle, but unmistakable, pattern of self-perpetuating IT and business project failures that eroded their confidence that they could spend *effectively*. (See figure 2, on page 2.)

The downward spiral

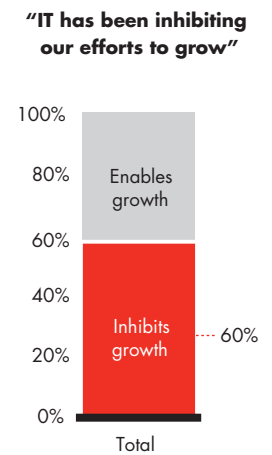
Most executives we interviewed could identify a clear tipping point—a single failed project or cluster of projects—that marked the onset of their company's downward spiral. The first symptom is that spending on new growth initiatives falls relative to total IT spending, and the money that remains is earmarked to improve efficiency and productivity.

IT tailspins typically occur in two forms. The first pattern is marked by a lack of consensus on goals and a loss of trust between the business side of the company and the IT organization. The company's business executives hesitate

Figure 1: Most companies believe that IT is required to enable growth...



...but 60% say IT creates growth bottlenecks



Source: Bain survey (n = 362)