

Redefining ROI

For midmarket insurers, implementing a new definition of ROI might help guarantee achieving the traditional one.

By Marek Jakubik

CIOs of mid-size insurance companies frequently struggle to balance the demand for speed in strategic systems implementations against the need for appropriate analysis, diligence, planning, and rigor. Midmarket companies often fail to apply enough depth and discipline to the process of analyzing options and choices. Consequently, many critical business decisions are made without the foresight that could save a lot of pain down the road. That pain is avoidable, if the CIO employs ROI (Relevant, Objective Intelligence) to maximize ROI (return on investment).

Making critical decisions is not a question of talent or ability. Rather, it is a question of resources. Big companies have the money and manpower to experiment with new technologies, to engage the best talent, to put pressure on vendors, and to absorb the occasional project failure. Their CIOs can often separate themselves from the daily operational issues to do some strategic thinking. Such luxuries are quite rare in midmarket companies. Midmarket CIOs wear so many hats that there is simply not enough time to wear them all. The ones labelled Analytic, Strategic, and Visionary often must remain in the closet.

Let's start with a no-brainer. The key to the CIOs decision-making process is good information. The higher the quality of information, the more intelligence there is at the CIO's disposal. But in the midmarket CIO's world, the sheer amount of information available is absurd; and there are no distinctions made between volume and quality.

Good information has three principal qualities. First, information needs to be *relevant* to the task at hand. That means it targets precisely the strategic and tactical problems of an organization. Second, it must be *objective*. Ideally, objectivity should come from third parties who have no interest in the sale of solu-

tions. Lastly, it must be sufficiently *in-depth* to permit a CIO to understand the risks, the traps, and the possible side effects of implementation along with all of the proposed benefits. It is this last need that most consultants fail to address.

The major difficulty in gathering relevant, objective intelligence is *gray noise*. In contrast to the "white" variety, gray noise disturbs, distracts, and detracts. CIOs often complain about "the curse of the in-flight magazine". This is the phenomenon in which the CIO's boss is on a plane ride and comes across an article about some new technological cure. It can also happen on a golf course, when the trusted vendor rep whispers into the boss's ear. Or when a trade magazine runs a cover story about a competitor's miraculous new software application. You can just hear the question: "Why don't we have this?"

Some unique factors make this phenomenon more harmful to the CIO than to other executives: The first is the hyper-pace and breadth of new technology developments. You've faced it yourself. Last year's PC is obsolete. A two-year-old, \$50 million implementation is already a legacy. A ten-month-old research report is already outdated.

The second factor is the fundamental gap between the business and technology worlds. Business deals with products, customers, revenues, and profits. Technology deals with servers, networks, applications, and databases. Solutions to a CIO's problems must bridge that gap.

Gathering the intelligence to help bridge such a gap can be time-consuming, expensive, and risky. Confoundingly, the CIO doesn't seem to lack for resources. Quite a few people make their living by helping technology captains navigate the seas of indecision: vendors, consultants, technology analysts,

sponsored-research firms, and the media. This is the Advice Industry. Let's take a closer at its members.

- Vendors have no particular responsibility to tell the (whole) truth. That's not an accusation. It's a marketing reality. It's the job of vendors to present the winning rhetoric that will allow them to beat competitors to contracts.

- Consulting firms traditionally help mid-market companies choose software and hardware solutions. They also pose another dilemma for the midmarket CIO: In large enterprises it is entirely justifiable to spend 0.5 to 1 percent of a project's cost on technology research. But with most midmarket project budgets falling in the \$10M to \$20M range, such research expenditures become prohibitive. Furthermore, most consulting organizations fail the strict objectivity test, i.e., they have agendas connected to follow-up work. After all, a system integration or implementation contract may bring revenue ten times the size of consulting fees.

Since most consultants tend to shy away from due diligence on vendors, they typically recommend those that have strong balance sheets, long-term technological strategies, and sizeable talent pools. It is simply in the best interest of consultants to favor vendors that constitute safe, albeit expensive, bets. But safe bets need not equate to good fits — especially since midmarket companies tend to select from different vendors than do their larger counterparts.

- Having ruled out vendors and consultants as sources of research data, the CIO scrapes his budget barrel and turns to the only affordable source: the technology analyst. This is not necessarily a bad choice, as long as it is properly used. The key is to understand the limitations of the analysts' business model.

Their coverage in this particular context is "a mile wide" and "an inch deep" by necessity. Most of them don't have the time, the resources, or the strategic scope to research multiple vendors for a single client. Since their objective, most often, is to guide the client ("What's going to happen?" "Where should I be?"), analysts are not as interested in conduct-

ing research as in making predictions based on trends, empiricism, and the predictions of other analysts. But, what if our CIO wants a relevant, objective, in-depth assessment of the best claims-management application for his P&C insurance business, based entirely on all the circumstantial needs of his company? If that assessment doesn't already exist, the analyst won't have it.

- Sponsored-research firms offer the benefits of neither sponsorship nor objective research. When "sponsors" benefit only by underwriting the cost of a researcher's product in exchange for the opportunity to slant the researcher's instruments toward desired outcomes — and when "research" subjects are also granted the opportunity to edit research instruments toward their own desired outcomes — that's not research. Rather, it's some combination of constituent-pandering and editorial prestidigitation. In any case, while the results of this kind of "sponsored research" often attract publicity, they do not represent the kind of data on which CIOs can base fiscal, operational, or technological decisions.

- And what if the CIO's pockets are empty? Well, the trade media will be standing by. But words of fairness are in order for CIOs and the media:

For CIOs, those words are *caveat emptor*. Media stories are not research studies. They are not intended to be. They can deliver information about new products and services. They can deliver case studies, technical descriptions, and user profiles. But they can't determine the functional applicability of any particular technological product or service to any particular CIO's needs, circumstances, or budgets.

For the media, those words are, "Sell space!" This is nothing more than commercial reality: No advertising dollars — no publication (unless, of course, we're talking about a membership publication, or the circulation is handsomely paid). So, the media must present news. Trade media will move neither copies nor advertising space by running stories about DOS platforms, code-based applications, dial-up connections,

or other ancient history. If it's not news, it won't sell — on the street or in the editorial department. And neither CIOs nor the media interpret that news as the research on which IT decisions should be made.

So, what's the beleaguered midmarket CIO to do? Take a deep breath and count to three:

1. Make your problem is explicitly known to your boss and the organization, since it's in everyone's best interest to optimize critical IT decisions.
2. Solicit consensus on the idea that a modest budget for relevant, impartial intelligence is a necessary investment. Target one to two percent of project budgets.
3. Whatever intelligence you buy, check it three ways: a) Is it relevant to your problem? b) Is it objective? c) Is it in-depth?

For midmarket CIOs, the demand for speed in strategic systems implementations *can* be balanced against the need for appropriate analysis, diligence, planning, and rigor. In every sense of the term, the *bottom line* is that CIOs must maximize ROI. In doing so, they must remember that research will provide meaningful ROI only if it is relevant to the task, objective in its evaluation, and deep in its expertise.

That way, ROI ensures ROI.

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