

# Collaboration economics

Few technology vendors or analysts are inclined to discuss the macroeconomic implications of collaborative commerce. In fact, most current discussion centres on individual organisations' likely return on investment (ROI) from adopting collaborative technologies.

Paul Strassmann is a respected authority on both issues. One of the most controversial and well-known thinkers in the field of technology ROI (see bibliography), he has also conducted extensive studies on the far-reaching impact of collaborative commerce on industrial economics. And according to him, \$2 trillion in profits is up for grabs if collaborative commerce emerges as a de facto business practice for every organisation worldwide.

But Strassmann does not promise short-term gains. These profits, he says, will take years to realise.

Furthermore, they will only be achieved by organisations that engage in a radical and fundamental re-think of basic economic models. "We've spent 300 years doing business around the idea of supply. The rules are changing. We now have to shift power from supply to demand. But don't expect it all to happen right away. It will take 'till the next century," he says.

## THIN TRANSACTIONS

Strassmann, a former information technology chief at Xerox and the US Department of Defense, contends that thinner transaction costs are the only way to achieve fatter profit margins.

However, cutting expenditure relies on organisations taking potentially controversial action. Undoubtedly, he says, it will result in the elimination of a vast swathe of influential groups currently embroiled in processing electronic transactions.

Lawyers, tax collectors and purchasing

*Industrial economics will be 'dramatically altered' by collaborative commerce, says former chief information officer and IT economist Paul Strassmann.*

## About Paul Strassmann

**PAUL** Strassmann's career in IT spans five decades. In the 1960s, he was CIO of Kraft Foods; in the 1970s, he directed worldwide information systems at Xerox; and in the 1990s, he took on the daunting task of managing the US Department of Defense's \$10 billion IT budget. Now he is a prolific author, lecturer and strategist on the value of technology in business.



## The changing role of the IT Director

If Paul Strassmann's predictions are to be taken at face value, the role of the IT director is due for a serious overhaul. The real-time exchange of information between companies, he says, will lead to a global consolidation of supply chains – and have a profound effect on the working practices of every IT director. The job will increase in complexity, spanning all aspects of the organisation. From here on in, warns Strassmann, technology executives will need to "play a game of three dimensional chess, not draughts. The challenge of collaboration in the future is much greater."

So what will be the primary concerns of the IT director in the collaborative enterprise? "IT executives need to look at transaction costs, data centre efficiencies, and product, service and marketing costs at the very least. They need to be strategists. The losers always ask for more IT but there's no relation between money spent on technology and profits," says the controversial author and authority on technology return on investment. "You have to get off the technology hobby horse.

Technology is just plastic and metal. When you think about organising information systems look at the point of demand as the focus for investing in IT," he advises.

For the last 50 years the goal of implementing technology has been to increase operating effectiveness. This, says Strassmann, is changing. "IT executives need to position IT as their strategic weapon of choice, operating effectiveness is important but not decisive," he says.

Cost metrics as they are applied to technology products and services will change, as organisations move to outsource technology projects in a bid to increase profitability. Through detailed studies, Strassmann believes he can prove that 73% of system costs can be attributed to management costs – the initial purchase price accounts for just 27%. Technology will therefore become dominated by services suppliers, reducing internal IT costs to around 40% of the corporate budget, as companies increasingly leave the running of the majority of business processes to third parties.

departments, for example, represent 'structural intermediary costs' in the business supply chain, says Strassmann. They must be wiped from the process, he argues: "[These parties] represent large bodies of entrenched self-interest that are trying to prevent the commodisation of economic transactions in order to preserve their own self-serving positions."

Only when this layer of personnel is eliminated can collaborative commerce achieve its true *raison d'être* – cheap and efficient global trading. When – or if – the new practices begin to take place, the repercussions could be messy. "We are likely to create a new form of war that is electronic. But the structural intermediaries are likely to create their own proxy war," he says.

### A ROLE FOR IT?

But what will IT contribute to this process? Throughout the 1990s, Strassmann collected a mass of evidence in support of the fact that return on investment from technology is hard to achieve, and still harder to prove.

He has cited, for example, the trillions of dollars spent on computers, the influence of non-IT factors on productivity metrics, and the startling statistic that in the US, spending on computers exceeds the total profit levels of all big businesses put together.

His position has been consistent and unequivocal: "There is no evidence that investment in IT produces superior returns... companies that spend more money on IT don't necessarily have a better financial performance."

However, a combination of collaborative



technologies and practices can assist in cutting transaction costs. Strassmann's research indicates that transaction costs now make up 34% of a typical manufacturing company's purchasing spend. Collaborative commerce may be able to reduce that figure to 24%.

Technology will be key, because real-time processing of business transactions will "sharpen the pace of economic warfare," Strassmann argues. But that will mean junking many existing investments – an unpalatable prospect at many organisations. "Dismantle batch processing in data centres and consolidate all networks and software," he says. But, he warns, "That could mean around \$4 trillion in software write-offs."

Clearly, cost cutting is key to altering

established organisational power balances. Strassmann argues that it can be accomplished in a number of different ways – force, stealth or by legitimate means.

"How an organisation regulates what I call the 'governance' of budgeting is an issue that determines whether the cuts will result in intramural 'civil wars' or in an orderly process for adjudicating business priorities. My best advice to a chief information officer is to devote a great deal of time making sure that the cost-cutting process is legitimate and that there is a well understood 'due process' for resolving differences as to what is important and what is not," says Strassmann.

In these budget-conscious times such advice is likely to be debated, analysed and understood more than ever. ⓘ

## Bibliography

**Paul** Strassmann is a prolific writer, having produced over 200 articles and numerous books on the subjects of information management and information worker productivity over the years. A selection of his most recent work includes:

- **1999 : Information Productivity**

An examination of how the costs of information management relate to all other costs of doing business. Includes an 'information productivity ranking' of 1,585 US firms.

- **1997: The Squandered Computer**

Specific recommendations on how to obtain better value from investments in information technologies.

- **1995: The Irreverent Dictionary of Information Politics**

A reflection on the inconsistencies in information management practices.

- **1993: The Politics of Information Management**

Guidelines on how to organise the information technology function in order to maximise effectiveness.

- **1990: The Business Value of Computers**

Research on the relationship between IT expenditure and corporate profitability.

