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Dynamic investment podcast

Part of KPMG's Future of IT podcast series

Episode transcript

Speakers:

Steve Bates
Global Lead - CIO Center of Excellence, KPMG International and Principal - Advisory, KPMG in the U.S.
E: sjbates@kpmg.com

Jason Byrd
Managing Director, IT Business Management
KPMG in the US
E: jcbyrd@kpmg.com

Rob Breakiron
Director,
CIO Advisory
KPMG in the US
E: rbreakiron@kpmg.com

Marcus Brakewood
Director,
CIO Advisory
KPMG in the US
E: mbrakewood@kpmg.com

Steve Bates: Thank you for joining us for another session for the future of IT. I am your host, Steve Bates, and today we're going to be discussing Dynamic Investment. This subject is around how capital is reinvested towards winning technology ideas, products, and services. And in the future of IT, this is a critical pillar into achieving market speed.

As you've seen in the future of IT, now more than ever, tech leaders have got an opportunity to increase their influence and spread value across the organization, but you're going to have to act differently, or you're going to risk missing the train.

So in today's conversation, we're going to focus on the intersection between IT, finance, and the business, and how to develop an approach to drive dynamic and continuous funding, for technology investments.

I'm pleased to be joined today by three of my colleagues, Jason Byrd, a Managing Director in our IT Business Management Practice, and Rob Breakiron and Marcus Brakewood, both Directors in the US firm's CIO Advisory practice. Thanks for joining me gentlemen.

And I'd like to start off with you, Rob, I think that one of the most interesting parts of the future of IT, is around all of the forces that are going on, that is predicating this change. One of those is digital transformation. We talk a lot about the need to have a connected enterprise, that's having a front, middle, and back office that run seamlessly in order to meet customer expectations.

I'm wondering in this sense, in the future of IT, where we're dealing with finance and IT, how are they changing their behaviors to meet this connected enterprise concept?

Rob Breakiron: What KPMG professionals are seeing is that IT organizations are thinking about changing the way that they build products, that they build and deliver projects to meet those products, in a faster, more iterative fashion. Not just in the development landscape, but also how they think about how they fund them.

Steve Bates: And so, if you're going to change how you fund things, which I believe traditionally, you're funding an annual budget, right? That's very different from what you just described with how products are developed. Can you tell us a little bit more about that?

Rob Breakiron: Traditionally these large organizations think of budgeting IT projects no different than looking at and spending capital for other, larger, different types of non-IT investment decisions. In IT, what we're finding is, we need to deliver our value faster to customers. So to do that, we can't be held hostage to the traditional yearly long cycle, of budgeting for IT. We need to start thinking about breaking those large monolithic projects into something smaller, that we can develop and iterate on faster, and not wait for the year long funding, or budgeting cycle to come around to. To collect and prioritize and start all of our best ideas for the next year.

Steve Bates: I think it's important to define terms and we talked about this section of the future IT called Dynamic Investment. What is Dynamic Investment and how is it different than what's happening today?

Jason Byrd: I think Dynamic Investment plays off of a couple of things. Dynamic is obviously changing or evolving. You need to be able to pivot and move quickly and not set up an annual planning cycles for IT, and then come back to the table a year later and redo it again, but dynamically change throughout the process of the year and be responsive to failing fast and the marketplace where products are successful and not make it an annual cycle. I think that's one of the key things around dynamic.

And I think also playing off the word investment, Dynamic Investment is you're trying to figure out how to place bets like an investment team would be in the market with a portfolio owner, for a venture capital firm, you're placing investments. And if you think about this funding model, the shift of thinking, it's less about setting up a budget and then burning down the budget in the old world, it's rather, I'm making bets, and that's what the investment is.

So I think both words are important. It's dynamic and then it's ongoing, not annual, and you're placing bets like a VC would in the marketplace with an investment.

Steve Bates: It sounds to me like there's a lot of friction across this chain today. A lot of manual steps, long lead time processes that Rob talked about. Sounds like this is a good opportunity to review how those processes are done. What do you see organizations are going to have to do in the future, around the processes for funding investment?

Jason Byrd: Sure, there's a lot of friction I guess we would see in the organization and finance because they hold the money. We're talking about funding, for right or for wrong, they are the center point at a lot of these friction points. And it's not because they are trying to stop innovation, of course finance is always trying to buy a company out there or make some huge bet in the capital market, but often times inside of IT they think of IT budget like any other OpEx, annually budgeted cycle, and they don't think about innovation being in-sourced inside of your company.

So the company is trying to figure out how to transform itself in the digital transformation. The IT organization is at the helm of thinking about how can we use technology, how can we innovate, how can we change our business model, working with the business as these ideas come, IT needs to work with finance and trust that finance can come to the table with money and not say, let's talk about it in next year's capital plan, next year's budget.

Venture capital firms, in the marketplace, when deals come and you're looking for an investor, you're going to make a deal right there and say, this is a bet I'm willing to make, I want to put my money on this and fund this venture. Let's see if it's getting the returns I expect, measure that early, and then we'll keep funding other tranches as we go.

And I think IT will need to work with finance, and finance needs to change the way it works with its innovation across the organization.

Steve Bates: Marcus, we just heard Jason talking about this shift in the relationship between how finance and IT are doing, again, planning, budgeting, forecasting, and funding things. What do you see in the market on how finance groups are changing their behaviors. Not just with IT, but also with their business stakeholders.

Marcus Brakewood: I'd say the one core thing that's hard to change, that they all have to work around, is maintaining the profitability of the company. Both finance and the business, they've got a long term view of profitability of the company, and what they do is, they section off a set of resources, whether it's technology, or developers, or other resources, used to place bets, over multiple years.

They section it off, and use it for these Dynamic Investment decisions.

Steve Bates: How is that going to change in a new environment where we're orienting more towards products, and less towards projects, and resources need to be moved dynamically? Who is able to make those decisions in the future?

Marcus Brakewood: Well, there's probably two parts, to answer that question. The first thing that's different in the organization is, these set of resources, they need to be self-sufficient. They need to be able to organize quickly and get a job done, and organize on some sort of value. And most often, that value is a product that a customer will touch.

The second thing is, they need someone to decide what they're going to be working on. And you need someone within technology, who knows how the technology works, paired up with someone in the business who knows what the customer wants. And you pair a team of these two types of roles together to give that self-sufficient team work to do.

Steve Bates: So that is a great example of what we call the connected enterprise concept. What you just outlined is that seamless integration of the front, middle, and back office, all focused on a customer need or a customer expectation. And an organization that can do that, while moving quickly, and able to pivot, is going to be at a competitive advantage to others, that can't do that.

Jason, I'm interesting in your perspective. How are organizations putting this type of thing into effect when they have this hybrid operating model? You can't just simply flip the switch overnight and move to a leaner IT finance process, or an agile organization that works together. How are organizations going to make this change over time?

Jason Byrd: Well, I think we could play off of what Marcus described about sectioning off parts of the organization, or technology investments. So one way is to not do all technology across the whole business, but certain products in the marketplace, certain functions, capabilities, business units, and then grow a bit like a virus. You start with one part of the business and you start funding it in a different way. There's no annual money to fund this. There's no projects. We now have products we're going to fund.

We're going to have quick wins. We're going to fail fast. We're going to do that in certain areas, and then we'll grow from there. And as you section off parts of the business, you may think about things that are back office functions. You may think about products that the marketplace can see or that technology is directly touching, your in-customers. Things built into your cost of goods sold and how you can leverage technology to automate things or have better intelligence for your customers.

So as you segment your business, you may think about things that have more customer impact, on the one hand, and you may think about things that are safer bets, maybe more internally focused, to try and see how you can explore some of these product-based market funding, VC funding models.

Rob Breakiron: Hybrid operating models, we're seeing this a lot. A lot of organizations came from a traditional waterfall type organization and while many are shifting towards an agile organization, not all are completely there. Even organizations that have understood that they want to go that way, they live in this hybrid world, so we understand.

From our point of view dynamic still works. Frankly, regardless of your delivery model, the key is going to be to identifying those value streams and shift towards funding those individual value streams instead of the projects, and honestly, once those value streams are identified, once they are budgeted at that level, it really doesn't matter how that development is handled, be it waterfall, extreme programming, scrum, or some other method.

Steve Bates: So Marcus, one of the big trends we're hearing about in this session is product management and the decentralization of IT as products spread out to become more business centric. It occurs to me though, that there's still going to be a need, from an executive level, to still have transparency to the technology spend that's happening across the organization. To be able to identify synergies or reduced costs.

In the future, how do you think this is going to be managed with the distributed IT function?

Marcus Brakewood: The easy answer to this is when a Dynamic Investment process is rolled out to an organization, there can be certain cost centers or elements of the P&L that are sectioned off to manage the technology spend at a company. The harder situation is when this doesn't happen in a controlled manual and there's some industries, like media or partnerships, where innovation is happening without control of the CDO and the CIO. And in these situations, you have to go search and govern that technology spend on the back end, and not the front end.

And there is a lot of tools on the procurement system that are helping CIOs identify this spend, bring it under management, and bring it under controls and process.

Steve Bates: Jason, as CIOs, and CFOs, and business leaders work more closely together on these integrated products and solutions, there is certainly going to have to be some behavioral, cultural changes that have to change. What are some of the agreements that you think those leaders need to make early on, as they embark on this Dynamic Investment journey?

Jason Byrd: A couple of thoughts: One, we in the IT collectively refer to the finance, and accounting, and controllership functions, as finance, but as anybody in that space would attest, those are largely different fields. And I think a lot of what IT has looked at in that grouped called, "Finance", has really been the accounting function. Set up a budget, how am I spending against that budget, and they are serving the controllership function. I think the future, they actually will become more like finance.

Financiers who have capital in the marketplace, like we see again in the external market. They are placing bets like any sort of CFO financier, not the chief accounting officer, but the finance lead. So I think that pivot will be coming into their own to finally use the term finance appropriately. And in the world of technology, and technologists, the IT organization has historically been the order taker, fulfilling and bringing technology to just automate functions, and use technologies in the marketplace, bring them to bear in the business.

And the evolution will be getting the technologists, and the technology organization, empowering the technologist in the business up earlier in the discussion around, what are the bets that they should be making, while working with the financiers with the money. What's the return? How fast? What's the market share? How am I going to grow and change the business? They're going to be looking at what are the technologies in the marketplace that we can bring to bear? How do we use it? How do we leverage it and differentiate our business model with technology?

So I think both IT and finance will have an evolved role to think like what they really have been wanting to do for many years: To be a part of the business, making business decisions. I think both organizations can play a role together in doing that.

Steve Bates: Couple of last questions, guys. And Rob, I'll ask you this one. What's the potential impact for an organization that doesn't adopt these approaches? What could happen?

Rob Breakiron: Well, in the most draconian world, I could actually think of that organization no longer existing. What organizations do and how they deliver value to their customers, both internally and externally, is largely dictated by how fast it can meet demand - the demands or the needs of their customers. So if they truly say that we're not shifting to this mindset, we're not going to think about how we're going to do things faster, how we remove friction out of our system, as the worst case, they could lose their place in the market or become obsolete altogether.

Steve Bates: So in closing, gentlemen, I'd like to just make this real for our listeners, and if there was one or two key takeaways on how an organization should get started or the things that they need to explain to their team, maybe each of you can give us one or two points. Jason, let’s start with you.

What do you think are the most important elements that an organization has to do in starting to consider shifting their operating model to more Dynamic Investment?

Jason Byrd: Well, a couple of things, they go hand in hand. One is, you're going to have to make these evolutionary changes. It doesn't have to be a revolution, you don't have to completely flip the organization upside down, but know that this is coming. And different industries, and different speeds, and different sizes of organizations can be different, but know that it's coming, and figure out how to adapt and not resist this change. And I think to do that, you're going to need to think like a business person more often, earlier on. So you can't just say, "Hey, I've got this budget. This is what I had last year. This is what I'm going to spend this year. I've got these upgrades, let’s do this." Or whatever you're rote process has been to figure out what you're going to spend each year, you're going to need to think like a business person would think.

And this doesn't always involve the very complicated business case, with cash flows, net-present value over ten years, in a classic MBA style of discounted cash flows. You're going to need to figure out ways to show value, show improvements, to get more tranches money to invest as you go along, like the market does and tech companies do in the market.

Steve Bates: Great, Rob, what about you? What are the couple of key points that you'd guide our listeners to consider before they start this journey?

Rob Breakiron: Steve, one of the hardest is completely changing a mindset to one where you not only tolerate failures in this new world, we are going to be making a lot of these smaller bets before the complete requirements, or even understanding of how we want to meet them are met - things are going to fail. And, from an organizational standpoint, shifting from failure as a bad thing to actually failure is a good thing, and actually promote failure.

One of my favorite quotes of all time, "You miss all of the shots that you don't take." I think that's true with IT organizations. You're going to have to shift that mindset. We're going to make a lot of these small bets, meaning a lot of different decisions, before they are well thought out. And most of those will not pan out. That's a big mind shift from how most organizations think today.

Steve Bates: Excellent point. Culture lies at the very heart of the future of IT. We call it decidedly human, and I think it's incredibly important that this pillar is supported by a cultural behavioral shift to tolerate those mistakes that come from experimentation.

Marcus, the last word is yours. What would you leave our listeners with?

Marcus Brakewood: I put it into one of two situations: If you do have a good control of technology budget, the most important thing is to start small where it makes sense, continue growing where it makes sense, and just iterate over time. And the second situation, if you do have a shadow IT problem, and there are some discrepancies between what a central IT or a business IT is doing, recommend figuring out how to work better together as a team, because if you don't combine your budgets, you're not going to be able to place bets efficiently or safely.

Steve Bates: Gentlemen, this was a great conversation about Dynamic Investment and the future of the relationship between finance, the business and IT. Fascinating all the things that are coming here. We heard principles about lean, we heard principles about thinking like a venture capitalist, we talked about cultural change, and all of the shifts that are going to be coming to let an organization achieve market speed in response to digital transformation.

So thank you so much for joining me today. And, for our listeners, please continue to tune in, to our future of IT podcast series, and make sure you check out all of the others on kpmg.com.

Thanks for listening.
