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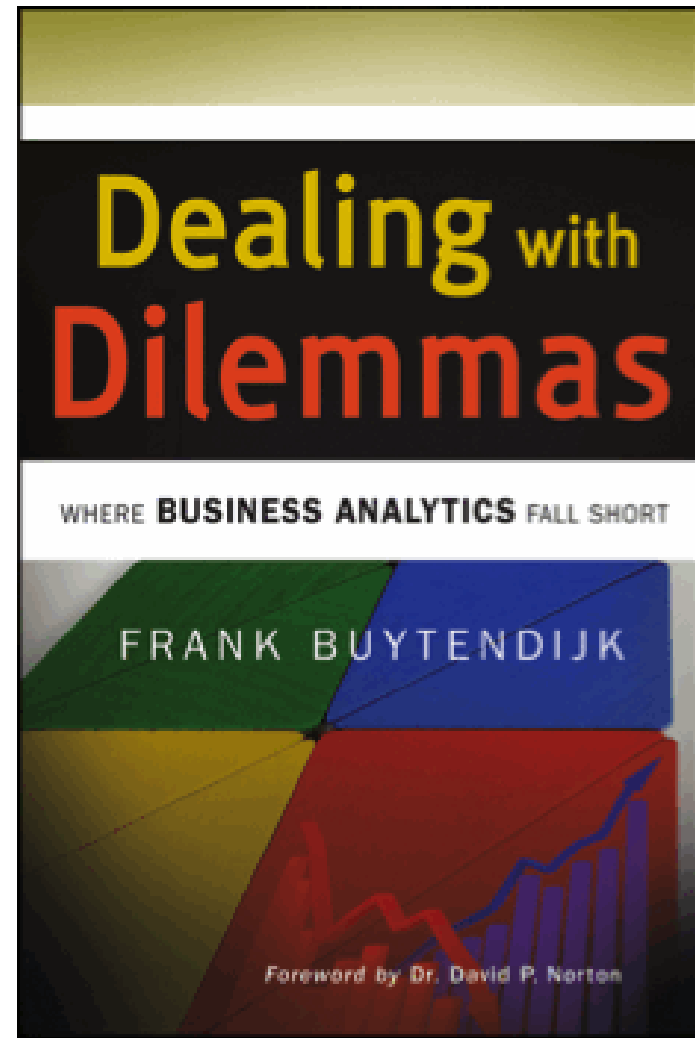
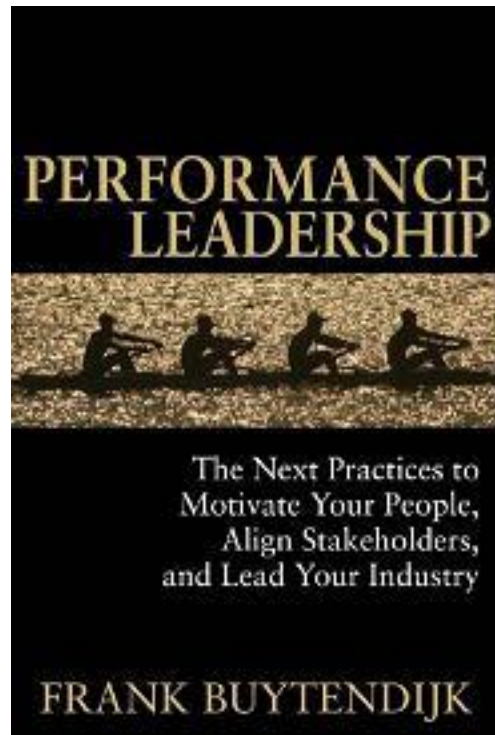
## **Modern IT Strategy: Creating Options**

Frank Buytendijk

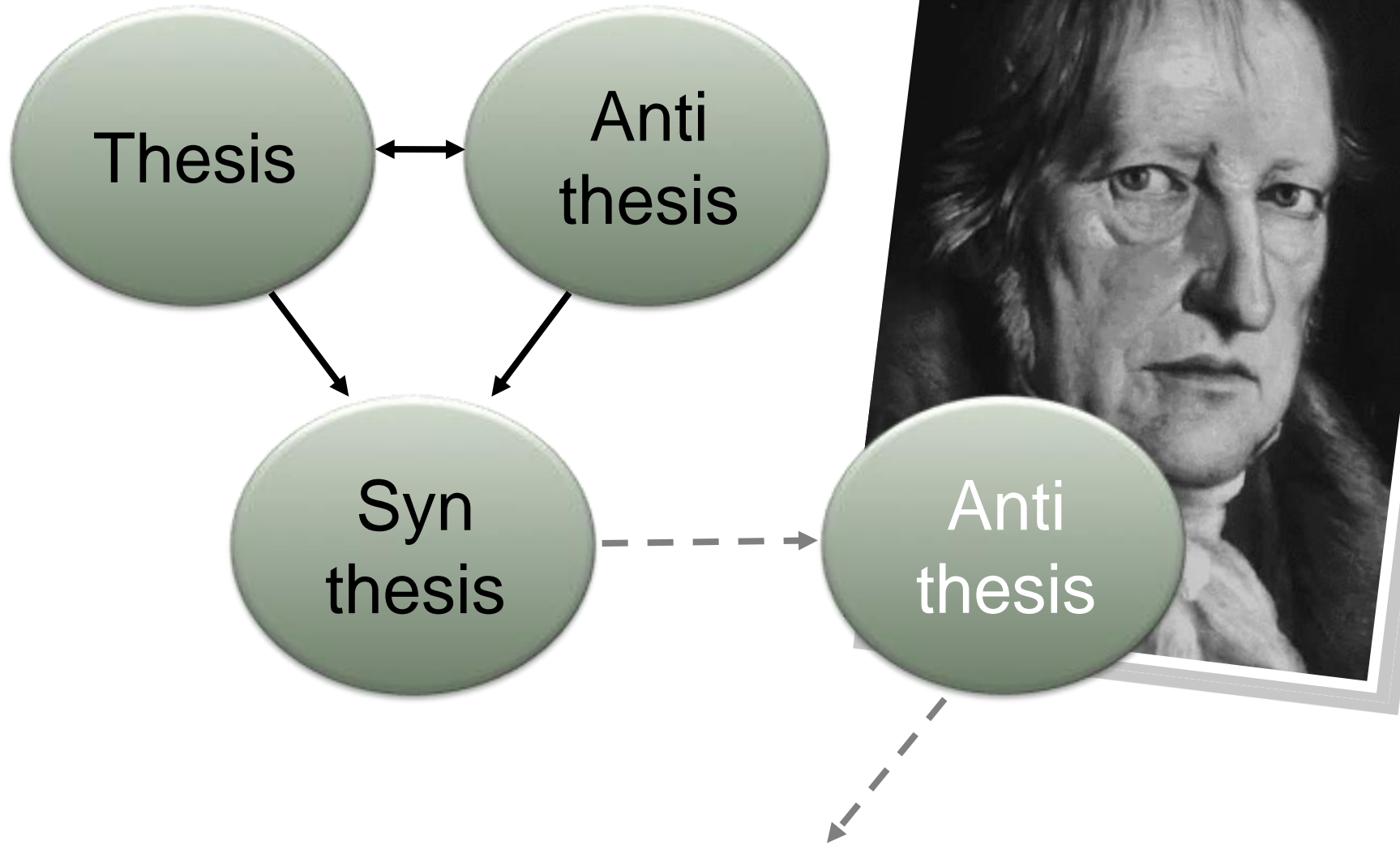
Vice President and Fellow, Oracle Corporation

[www.oracle.com/thoughtleadership](http://www.oracle.com/thoughtleadership)

# Inferiority Complex...

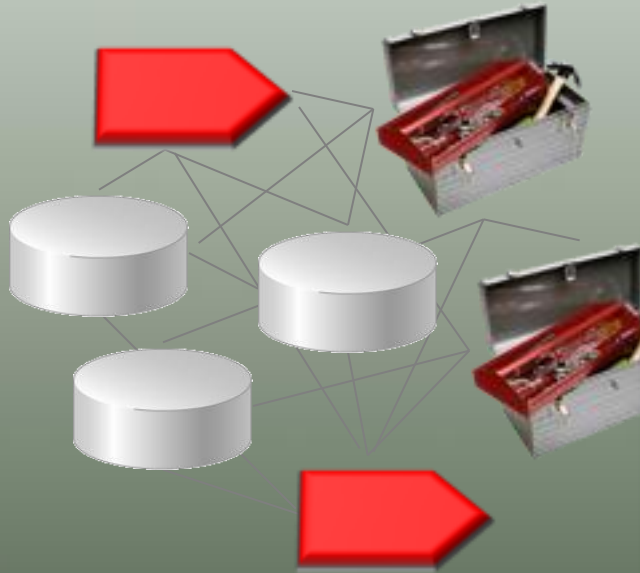


# How The World Develops...



# How Does That Apply to the World of IT?

**Best of Breed**



**... Support business automation  
(general ledger, order entry)**

**One Stop Shop**



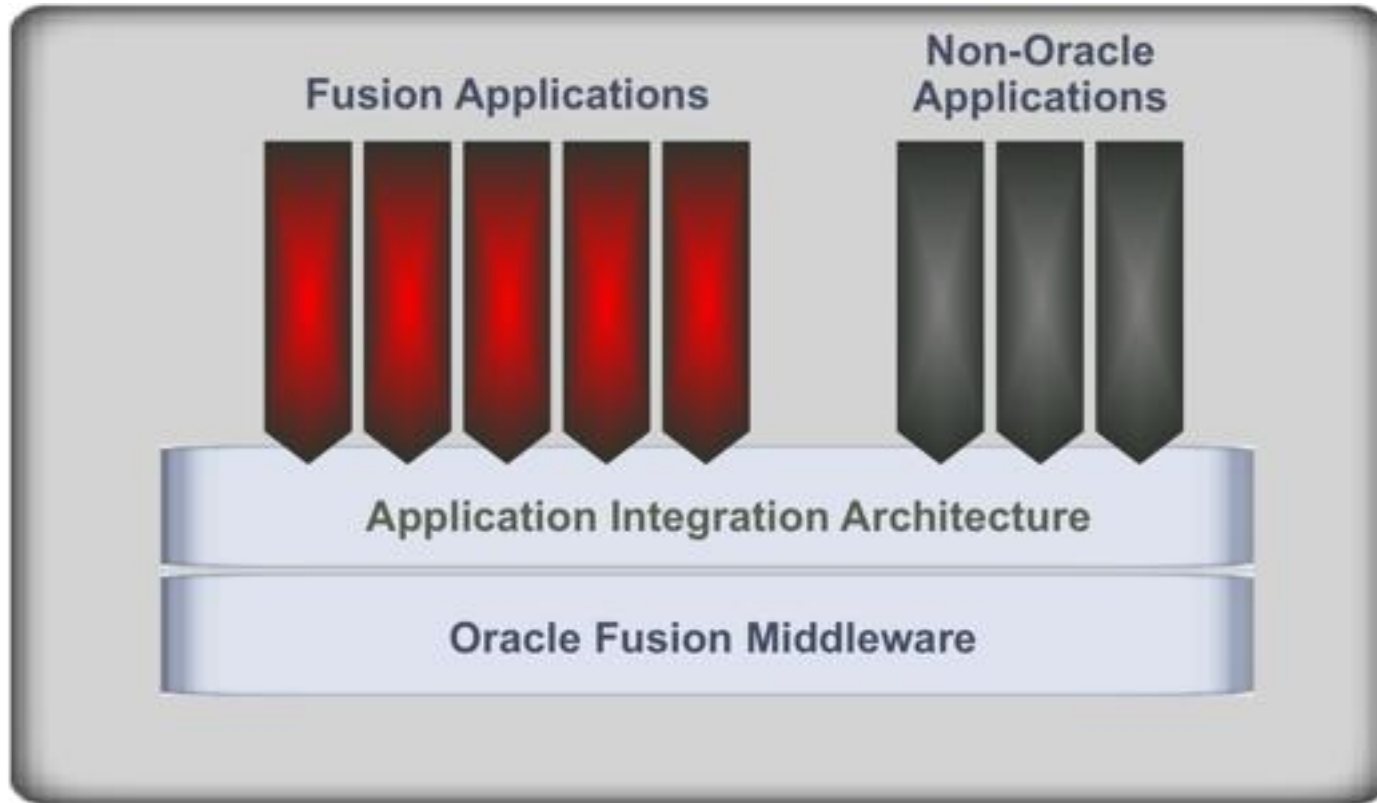
**“Thesis”**

**... Business integration  
(ERP, CRM)**

**“Antithesis”**

# The New IT Paradigm

## Single Middleware, Best Of Breed Applications



**“Synthesis”**

... Support value chain integration, and integration of performance, risk and operations

# How Does That Apply to the World of IT?

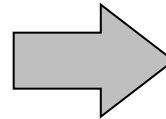
## Best of breed

- (+) Flexibility
- (-) Integration burden

Work with many vendors  
Age of Development

**“Creating Flexibility”**

“thesis”



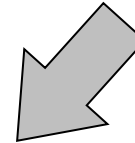
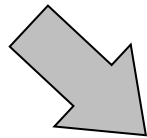
## One Stop Shop

- (+) Industry best practice
- (-) Lock-in

Work with a single vendor  
Age of Application

**“Creating Efficiency”**

“antithesis”



## Fusion

- (+) Flexible, no lock-in
- (+) Pre-integrated

Work within an ecosystem  
Age of Architecture

**“Creating Options”**

“synthesis”

# How Does That Apply to the World of IT?

Best of breed

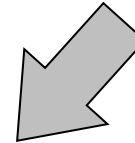
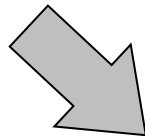
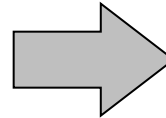


“thesis”

One Stop Shop



“antithesis”



Fusion



“synthesis”

# Modern IT Strategy



**White Paper:  
Business/IT Alignment, An Oracle View**  
**[www.oracle.com/thoughtleadership](http://www.oracle.com/thoughtleadership)**

Don't judge whether the company has the right strategy or not, but how it adapts to changing circumstances.

IT is crucial in providing that flexibility.

IT strategy can be seen as a portfolio of investment opportunities that can be delayed, expanded, switched or abandoned when needed, called "real options".

# The Bottom Line

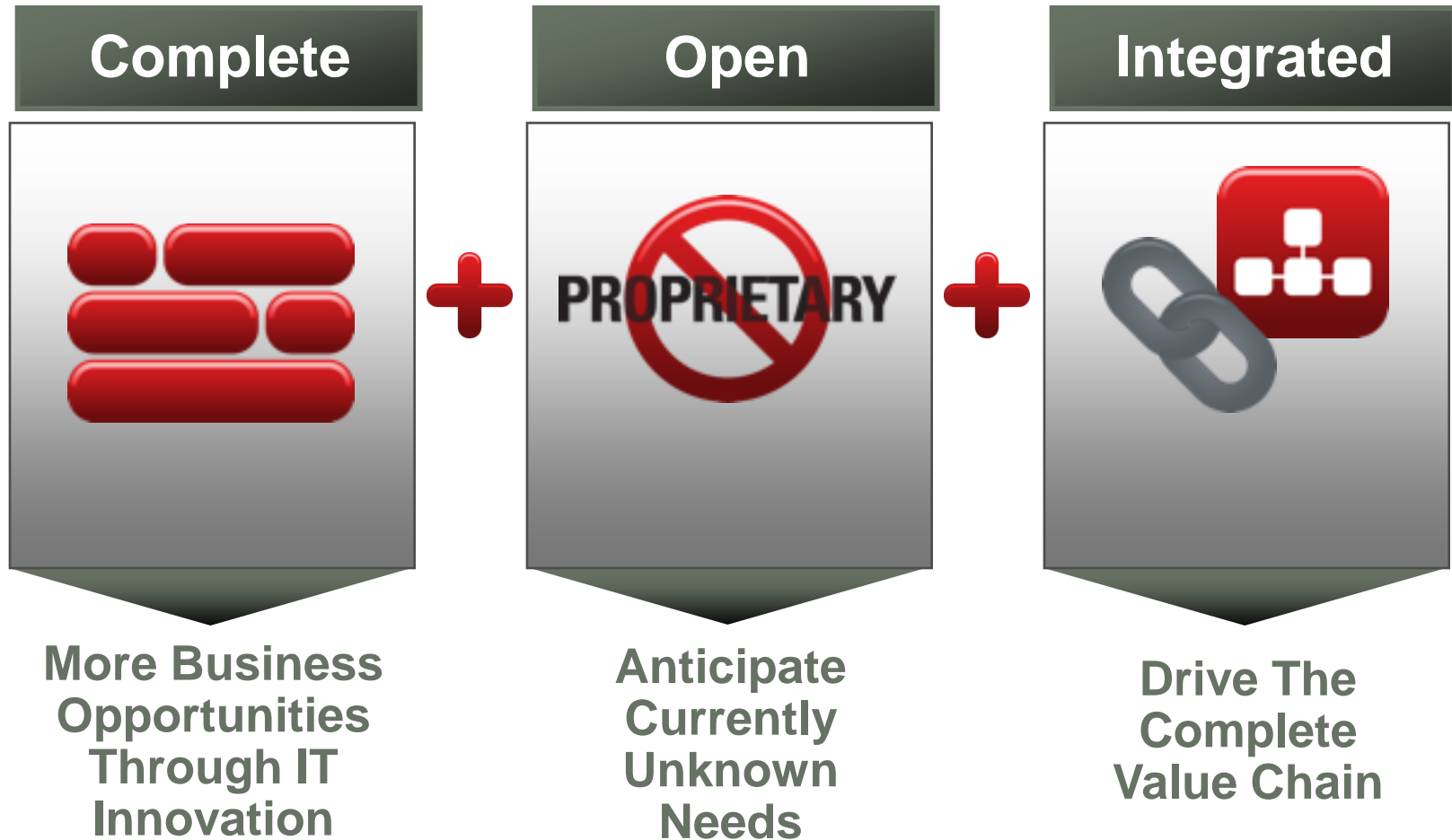
## Traditional thinking

- Risk and uncertainty depress the value of an investment

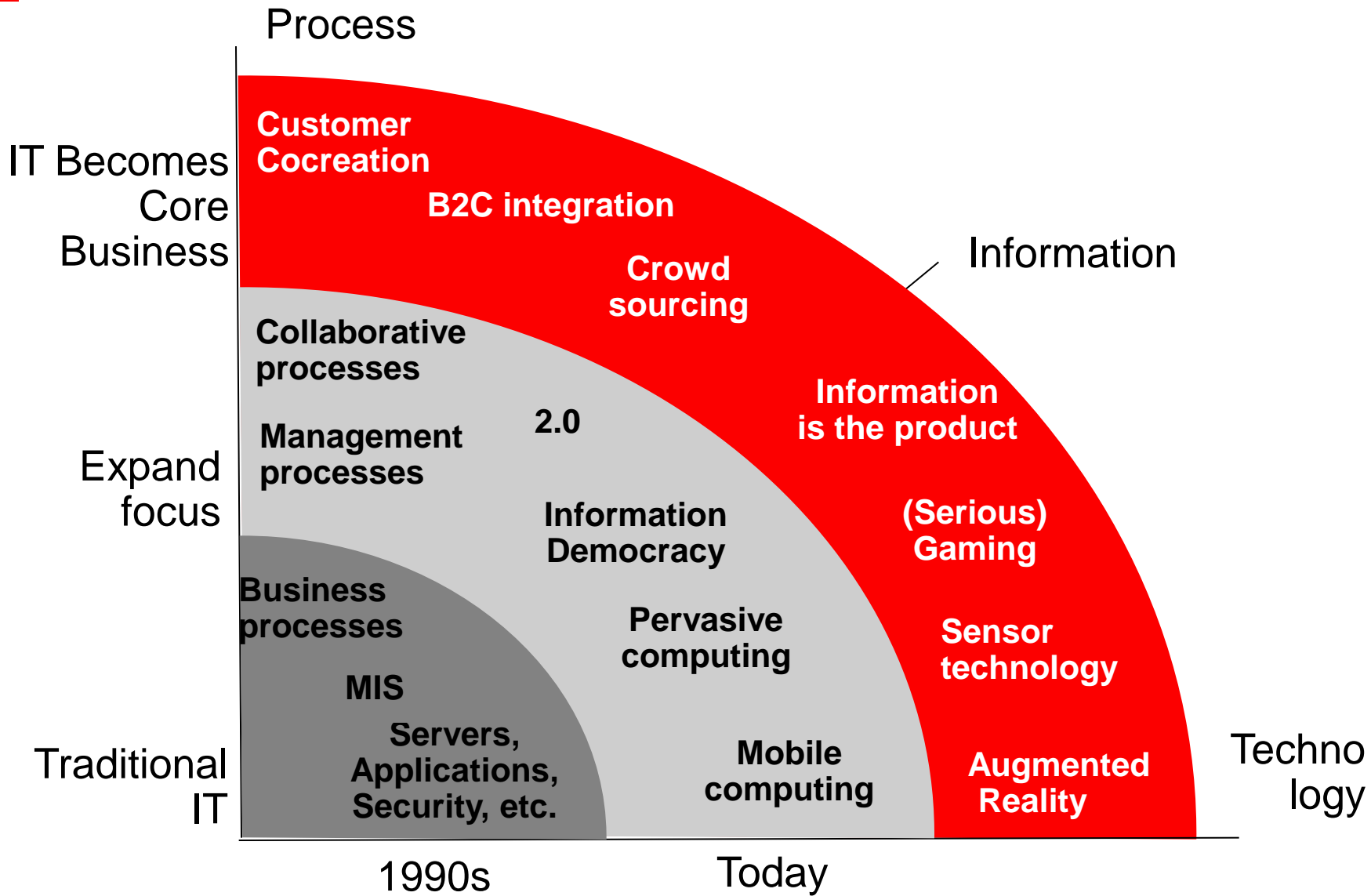
## Options-based strategy

- The higher the uncertainty, the higher the value of agility
- If managing risk is a core competence, risk *adds* to the value of an investment (\*)

# Introducing “Technology Excellence” A Complete, Open, Integrated **IT Strategy**



# Complete – The IT Radar





RFID

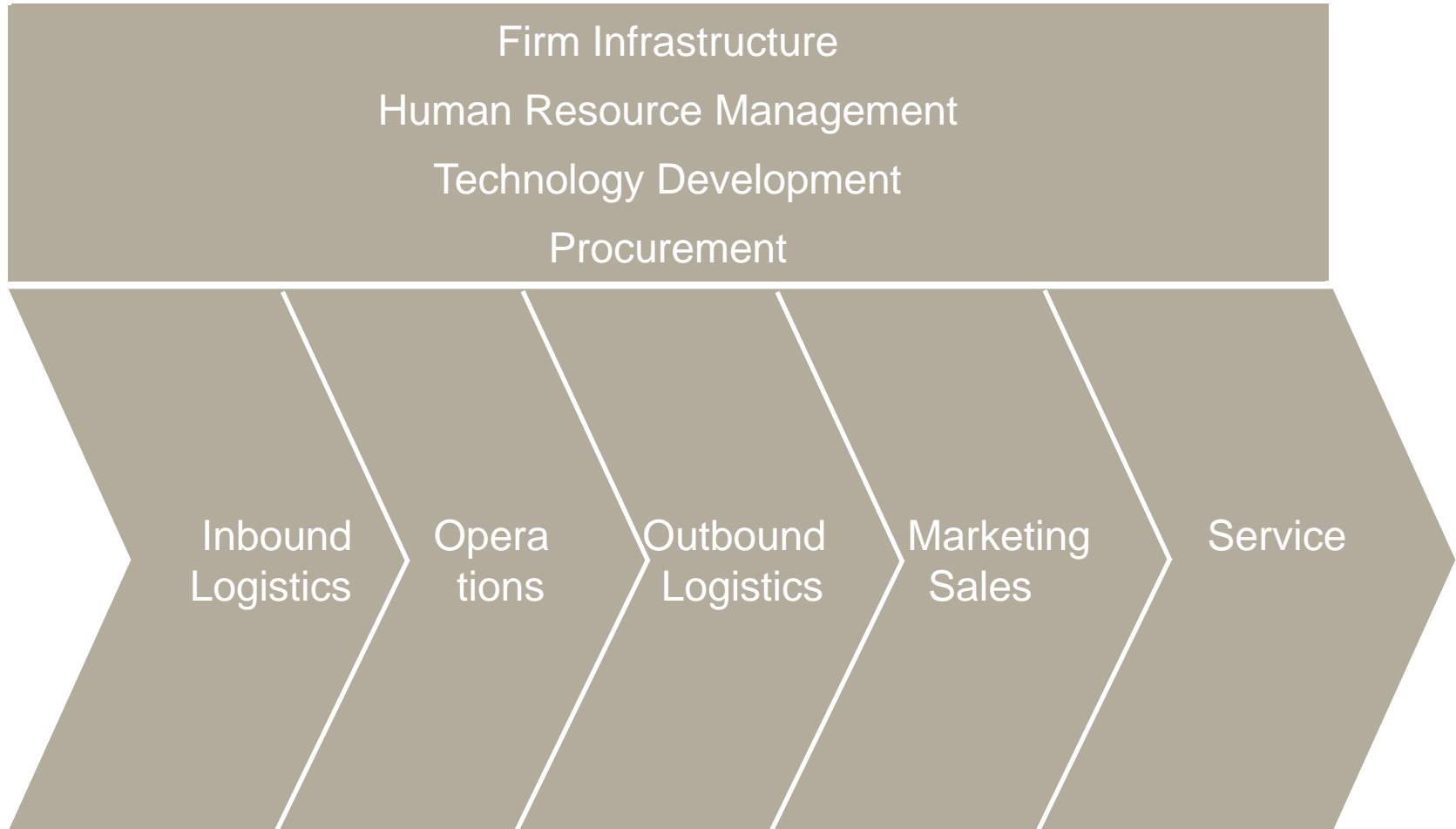


Augmented Reality

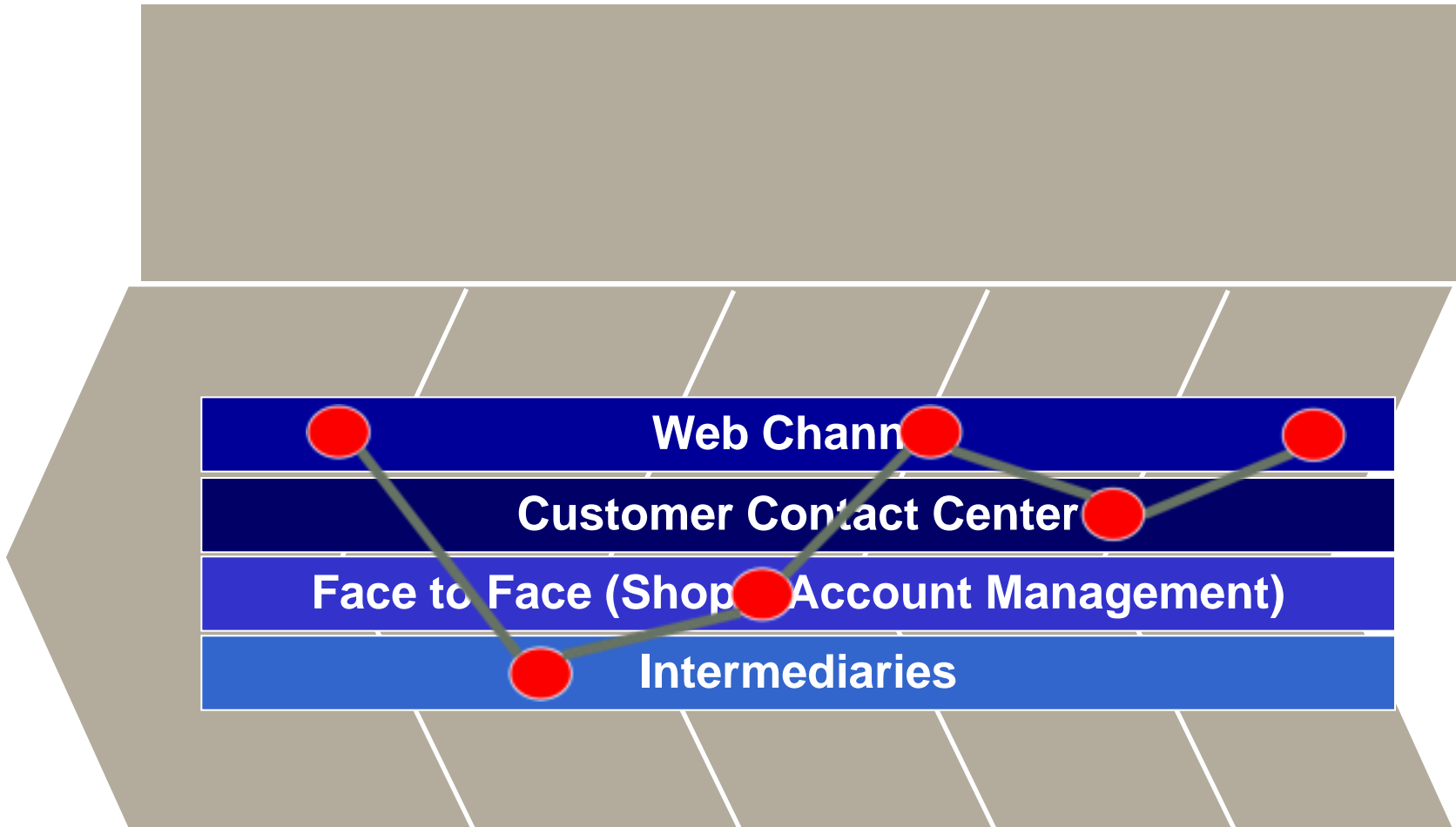
## Open – Dealing with Long Term and Short Term

- Fast pace of technology development, yet long-term investment cycles
- The need to anticipate currently unknown requirements and capabilities in both hardware and software
- Compose, decompose, recompose business processes

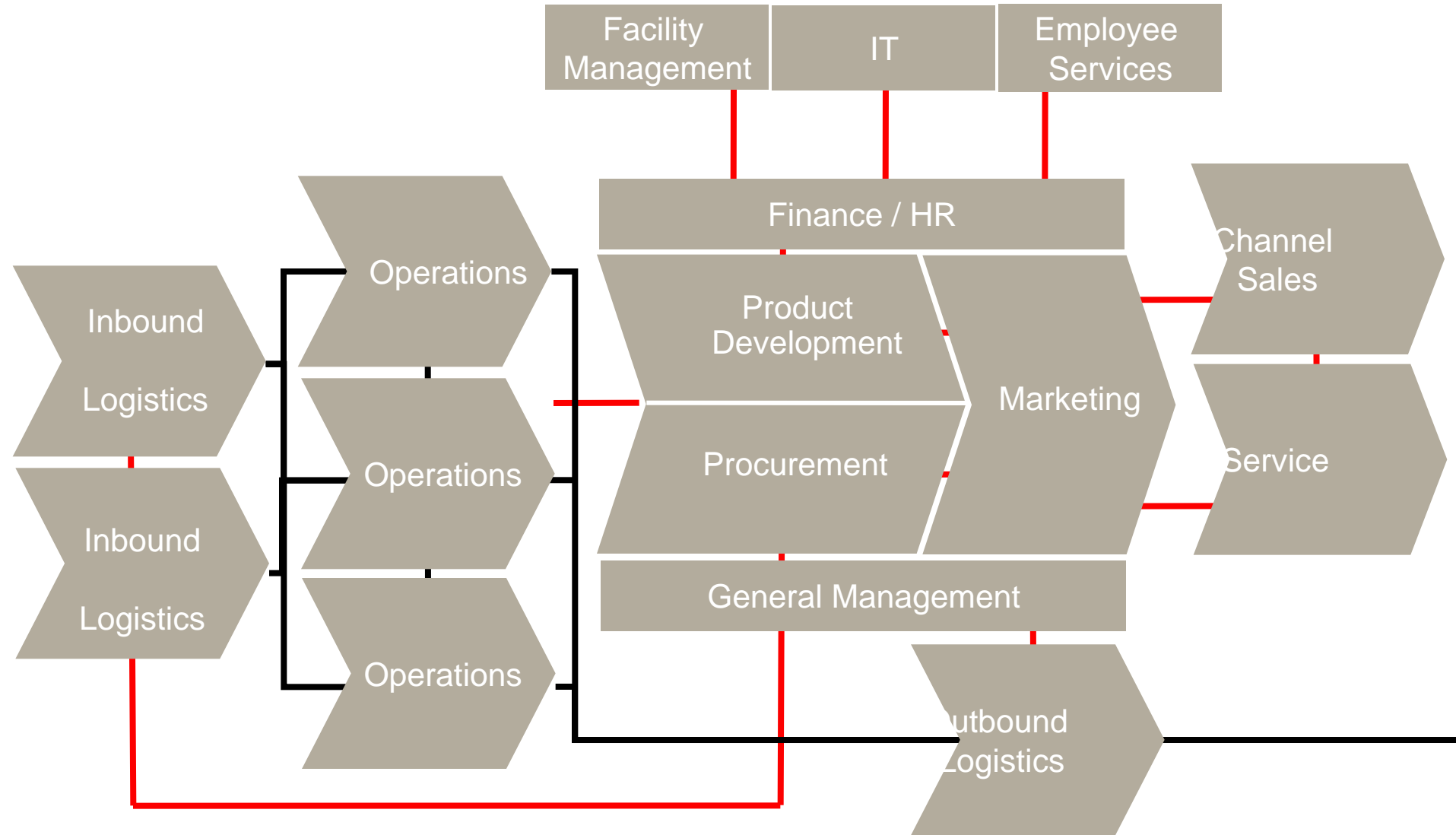
# Integrated IT Strategy



# Integrated IT Strategy



# Integrated IT Strategy



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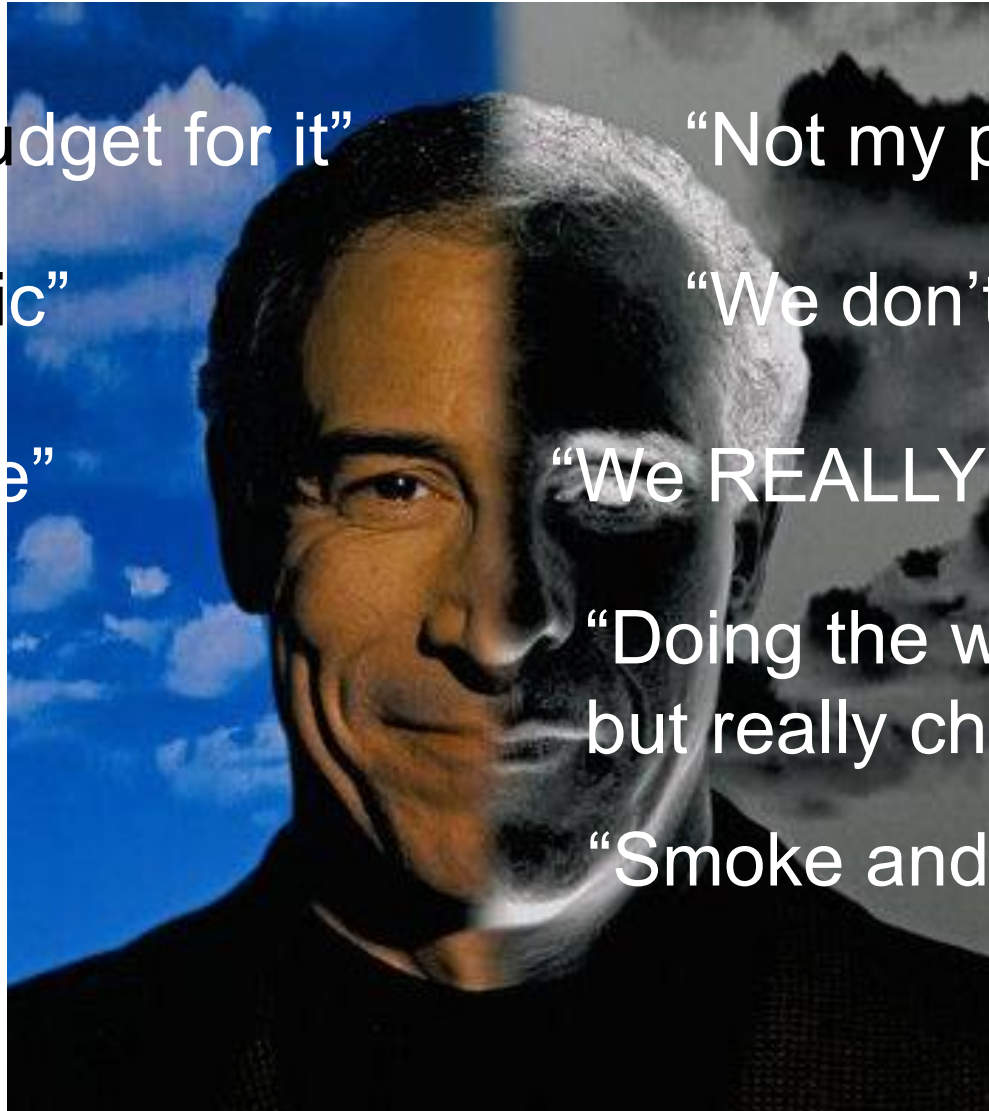
Flow of Goods

Flow of Information

# Building The **Business Case**



# Building The Business Case



“We have budget for it”

“Not my problem”

“It’s Strategic”

“We don’t know”

“Compliance”

“We REALLY don’t know”

“TCO”

“Doing the wrong thing,  
but really cheap”

“ROI”

“Smoke and mirrors”

High  
Uncertainty

Disposable  
Strategies

Create  
Options

High  
Certainty

Follow  
Best Practices

Make  
Choices

High  
Reversability

High  
Irreversability

# Another Approach: Real Options



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AUTHORITY**

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# From Solutions to Capabilities

**Enterprise  
Architecture**



**Emerging  
Technologies**



**Agile  
Implementation**



IT as an asset:

- Architecture ensures that IT resources can be used for multiple purposes. IT resources become more liquid.
- With an agile IT strategy, IT resources keep their value over time and are less prone to depreciation.

# Implementing a CRM System

<b>Best Practices Solution</b>		<b>Options-based Solution</b>	
Benefits	300	Benefits	300
Cost of Ops	200-	Cost of Ops	190-
License/Maint	80-	License/Maint	95-
<b>ROI</b>	<b>20</b>	<b>ROI</b>	<b>15</b>

# Implementing a CRM System – Step 2

## Best Practices Solution

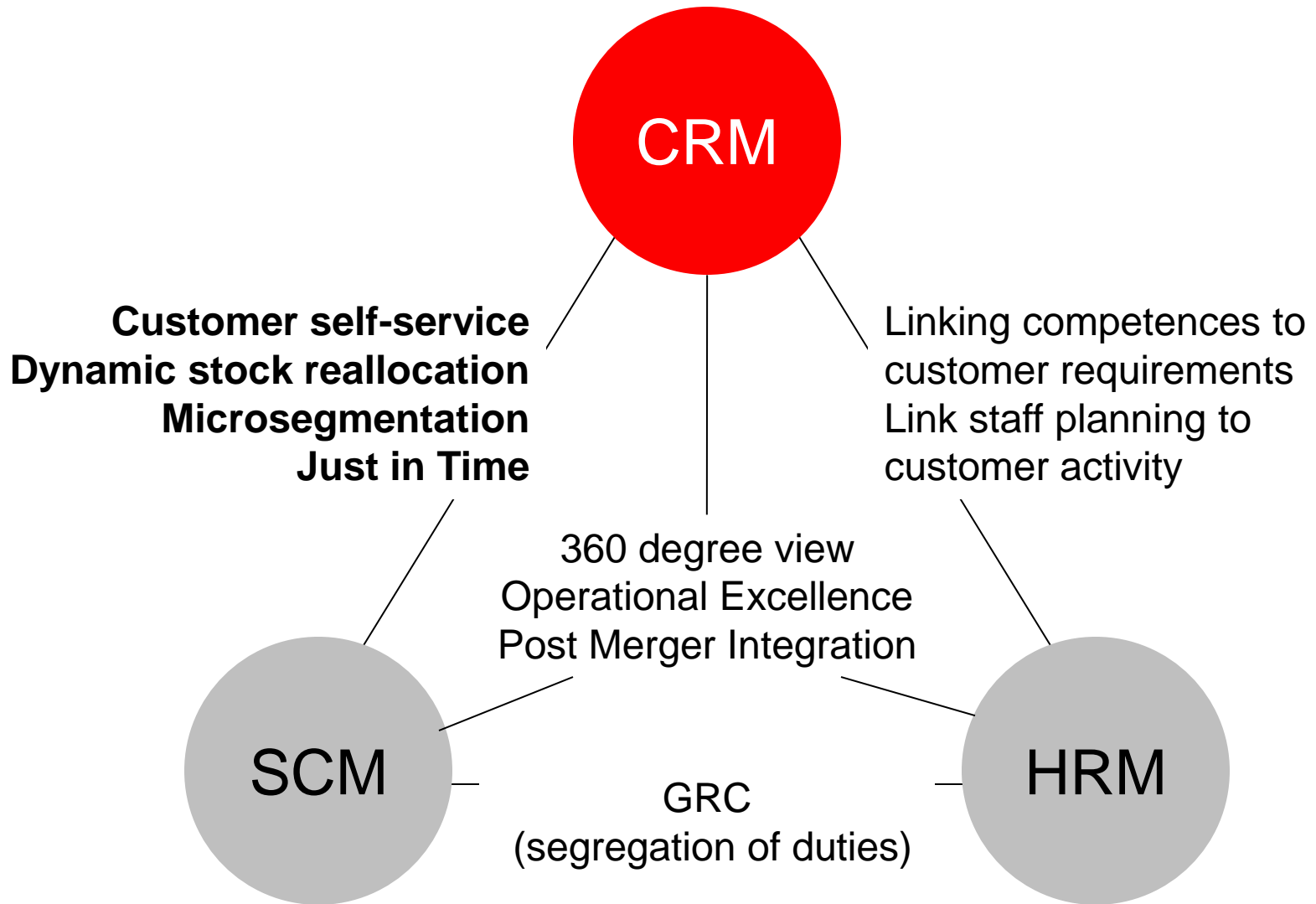
Initial ROI	20
Cost of Change	30-
Realistic ROI	<b>-10</b>

## Options-based Solution

Initial ROI	15
Cost of Change	10-
Realistic ROI	<b>5</b>

**... Not meeting  
hurdle rate !!**

# Implementing a CRM System – Step 2



# Calculating the Option Value

The Model:

$$C = SN(d_1) - Ke^{-rt}N(d_2)$$

C = Theoretical call premium

S = Current Stock price

t = time until option expiration

K = option striking price

r = risk-free interest rate

N = Cumulative standard normal distribution

e = exponential term (2.7183)

$$d_1 = \frac{\ln(S/K) + (r + \frac{s^2}{2})t}{s\sqrt{t}}$$

$$d_2 = d_1 - s\sqrt{t}$$

s = standard deviation of stock returns

ln = natural logarithm

Purpose of the formula is to discuss assumptions and structure the discussion:

- Option period (write-off versus next-generation)
- Hurdle rate (standard financial)
- Option cost
- Current value (standard business case)
- Standard deviation equals level of uncertainty
- Option value increase or decrease

# Implementing a CRM System – Step 2

## Best Practices Solution

Realistic ROI                      **-10**

## Options-based Solution

Realistic ROI                      5

Benefits Options                      19

Total ROI                              **24**

# Information Management

- BI's value is not only in management reporting and decision-making, the option value is in business application integration. Integration is the innovation
- Data warehouses are an infrastructure to support all areas of data integration, not just a source for BI
- ETL is not a separate category anymore, it's part of Enterprise Information Integration

# Recommended Reading

- Hubbard, D.W., *How to Measure Anything: Finding the Value of "Intangibles" in Business*, Wiley, 2007
- Read, T.J., *The IT Value Network: From IT Investment to Stakeholder Value*, Wiley, 2009
- Ross, J.W., Weill, P., Robertson, D., *Enterprise Architecture as Strategy: Creating a Foundation for Business Execution*, Harvard Business Press, 2006
- Raynor, M., *Strategy Paradox*, Crown, 2007
- Buytendijk, F.A., *Dealing with Dilemmas: Where Business Analytics Fall Short*, Wiley, forthcoming (September 2010)

## Oracle papers:

- *Return on IT: Measuring Agility*, [www.oracle.com/thoughtleadership](http://www.oracle.com/thoughtleadership)
- *A Strategic View on Oracle: Creating Options*, [www.oracle.com/thoughtleadership](http://www.oracle.com/thoughtleadership)
- *Business and IT Alignment: An Oracle View*, [www.oracle.com/thoughtleadership](http://www.oracle.com/thoughtleadership)
- *Continuous Business Transformation: The CIO Perspective*, [www.oracle.com/thoughtleadership](http://www.oracle.com/thoughtleadership)
- *Introducing Management Excellence: How Tomorrow's Leaders Will Get Ahead*, [www.oracle.com/thoughtleadership](http://www.oracle.com/thoughtleadership)
- *SOA Governance: Framework and Best Practices*, [www.oracle.com/soa](http://www.oracle.com/soa)

