



Accelerate How You
Differentiate

The **ALERT** ENTERPRISE Audit

A BPM FORUM Report

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➤ Introduction

Driven by increasing competitive, regulatory and market pressures, the pace of business today is accelerating rapidly. As a result, enterprises are confronted by the need to strengthen and hone their capacity to both anticipate and respond to change. While executives have long suggested that this is a top priority, the evidence suggests that significant roadblocks continue to exist within this journey.

As a result, important questions are being asked today of all businesses: Where are companies in this evolutionary process of becoming more nimble, responsive and perceptive creatures of their competitive environments? Which areas of their business are most critically in need of change? What is the role of IT in enabling this transformation, and how satisfied are executives with their progress?

ACCELERATE HOW YOU DIFFERENTIATE: THE ALERT ENTERPRISE AUDIT is a new thought leadership initiative that seeks to bring greater clarity and perspective to these efforts by examining the challenges companies face in keeping pace with this increased velocity and change. In addressing these concerns, it proposes a new model for the “Alert Enterprise,” which is defined as the enterprise’s ability to effectively sense and react to market and operational change in order to accelerate how they create competitive advantages in their markets. This model also recognizes the fundamental role that IT plays in linking business strategy with its execution.

The issues challenging organizations today are not insignificant ones that enterprises can simply address on a tactical basis. Rather, they are systemic challenges that all enterprises face, which demand a more strategic and broader perspective. As one executive – a top marketer with one of world’s leading office equipment and solutions companies – noted, “we absolutely believe a better response to market and operational changes and risks is critical to our business worldwide. If we don’t respond quickly to our customers, a competitor certainly will.” Another executive succinctly added that “we simply can’t afford to be a company that looks in the rear view mirror.”

Indeed, if businesses are really governed by Darwin’s Law of Survival of the Fittest, today’s kings of the jungle need to be more alert and responsive to the sounds and movements of the forest. They must possess a finely tuned ability to quickly move across their landscape, switch directions suddenly and pounce on changing market preferences – or react to new competitive attacks – as these are the attributes of an Alert Enterprise.





➤ Introduction

As a result, the study examines executive perceptions and satisfaction levels about their companies' ability to anticipate and respond to change, particularly across three key areas, which are critical to becoming an Alert Enterprise:

- > **access to relevant, real-time business insight and information;**
- > **the ability to rapidly redesign processes and deliver new business applications;**
- > **the overall capacity of IT to keep pace with change and create business value.**

Results of the study indicate definitively that business executives are feeling the pressure to build a more Alert Enterprise. As just one example they see a growing need to improve decision making and responsiveness through better access to real-time information.

The study also finds that these executives have increasing expectations for IT to play a larger role in helping them respond more rapidly to evolving market conditions, operational challenges and business requirements. In doing so, they want their IT organizations to be more responsive and aligned with strategic business objectives. However, these executives have mixed emotions about the performance of their IT organizations in delivering on the promise of the Alert Enterprise. On the one hand, they see IT as more vital and strategic to their business than ever before. On the other, they say IT is having difficulty keeping up with demands for application deployment and business process innovation, and is also falling short in understanding and addressing strategic business needs.



➤ Purpose and Process

Study findings are based on a survey conducted in late 2005 and early 2006 of more than 300 executives and business line managers across a wide cross section of industries. The survey reached companies ranging in size from small and middle market to global corporations with revenues in the tens of billions of dollars. One fourth of all respondents came from companies with revenues of \$500 million or more. The views and opinions of participants from these larger companies are discussed throughout the detailed findings of this report, whenever they diverge with those of the entire study group.

ACCELERATE HOW YOU DIFFERENTIATE: THE ALERT ENTERPRISE AUDIT was conducted in cooperation with the Business Performance Management (BPM) Forum and Chief Marketing Officer (CMO) Council, with additional input and support from webMethods. The BPM Forum is a leading executive thought leadership organization dedicated to research and advocacy of business performance management practices, processes and systems in global enterprises. The CMO Council is dedicated to high-level knowledge exchange, thought leadership and personal relationship building among senior marketing and brand decision-makers. It represents executives from nearly 2,000 corporations around the world, accounting for well over \$500 billion in aggregated annual revenues. webMethods is a global leader in business integration software, helping approximately 1,400 global enterprises and leading government agencies integrate, assemble and optimize core business processes for increased flexibility, efficiency and productivity.



➤ Summary of Key Findings

“We have to improve rapport with customers in a real-time mode to better predict potential problems – instead of waiting for periodic surveys and account team meetings that may result in a termination of the relationship.”

The Value of Being Alert

Rapidly building new applications, improving business processes and gaining more relevant, real-time insights into critical market and operational developments are all seen by executives as delivering significant business value by improving their ability to anticipate and respond to change. Among the top competitive advantages of being alert are: the ability to introduce more relevant products and services; improve customer loyalty and intimacy; and increase operational excellence (a particular concern of larger companies).

“The goal of being an Alert Enterprise needs to be embedded in the culture of a company. Leadership needs to understand and communicate that being an Alert Enterprise provides a strategic advantage – for the company and its shareholders.”

The Need for Real-time Information Access

When it comes to requirements for real-time information, respondents say the leading pain points include a need for improved competitive intelligence, more accurate customer information and better performance metrics. Performance metrics and indicators are the number one requirement for larger companies. However, only about 30 percent of participants believe they have the ability to frequently get real-time insight into operations and business processes. They point to the ability to make better decisions, take earlier corrective actions to address opportunities and problems and better align business functions as the major areas of business improvement, enabled by real-time information access.

“We want visibility into the buying behavior of our customers in order to improve customer service and targeted marketing. We want to be able to send proactive alerts to let customers know when they need specific supplies.”





➤ Summary of Key Findings

Business Process Adaptability

Rapid changes in customer preferences; competitive pressures; new product and revenue opportunities; and the call for greater operational efficiency all drive the need to redesign business processes and create new applications, according to survey respondents. Participants from larger companies, however, point to shifting government regulations as the leading driver.

“We’re focused on improving and accelerating the top processes involved in the “order to cash” cycle... from the first point of customer contact to when cash is collected.”

IT Matters More Than Ever

Nicholas Carr was wrong! IT does matter – and more than ever in the era of the Alert Enterprise. Carr’s now famous article, “IT Doesn’t Matter,” which appeared in the May 2003 Harvard Business Review, argues that IT is becoming a commodity that no longer provides significant competitive advantages. Executives in this study strongly disagreed. Some two-thirds of all respondents, and more than three-quarters from larger companies with revenues above \$500 million, said IT plays an important role in creating market differentiation. Only about 10 percent of respondents – and 5 percent among larger companies – said IT was “not very important” to market differentiation.

“We have six business initiatives this year and one is that IT scales.”

Problems With Keeping Pace

If becoming an Alert Enterprise is a journey, most executives wish they were further along on the road. Only a third of all respondents and one quarter of those from larger companies are satisfied with their ability to anticipate and respond to change. In addition, respondents say their IT departments are having trouble keeping up with demand. In fact, among larger companies with revenues above \$500 million, some 45 percent of respondents say their IT organizations are either having “significant difficulties” or “can’t keep up at all.” Executives also indicate that IT is poorly aligned with the strategic objectives of the company.

“Like many other companies, our IT department has more projects than the company is capable of delivering – or can afford to deliver. We need a better project prioritization scheme across business and IT functions.”



➤ Summary of Key Findings

What Executives Want From IT

According to participants, the IT Dream Team for today's enterprise provides both speed of delivery and strategic business savvy. Respondents say the qualities they most value in an IT organization are: 1) flexible and responsive in delivering applications, 2) performance-driven and outcome-oriented and 3) understanding of strategic business needs.

“Our IT organization is staffed by IT people that have to understand the business requirements as well as the technology issues. We pick the parts that you must centralize.”

Plans for SOA

There is a significant sentiment among business executives that service-oriented architecture (SOA) will become a critical enabler of the Alert Enterprise, with 64 percent of executives among larger companies concurring with this point. While few companies are far along in implementation, a high percentage is at least in discussions. Only about 14 percent of respondents, 7 percent among large companies with revenues above \$500 million, say they have no plans to implement SOA.

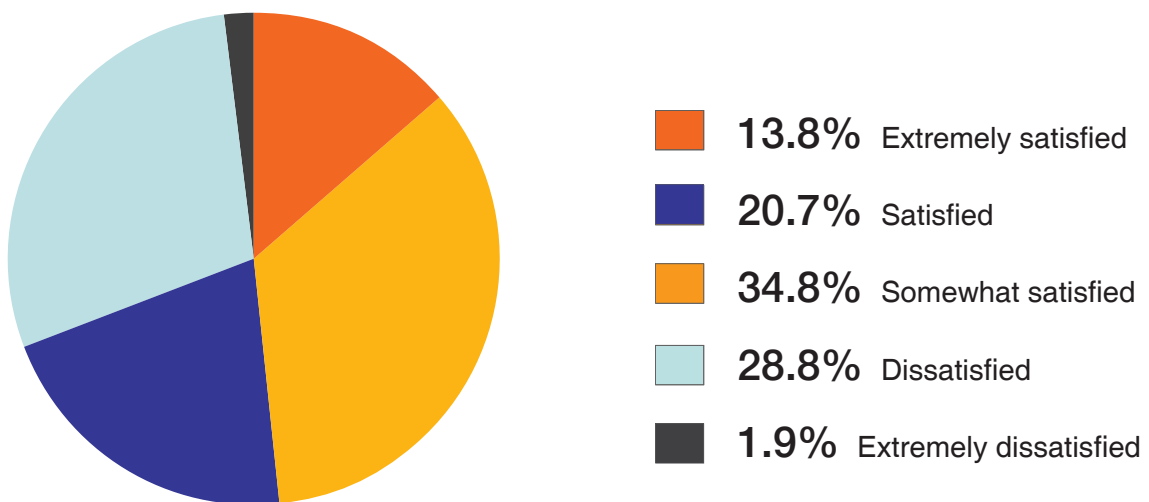
“We are moving toward a service-based architecture (SOA) with real-time messaging to better operate and react to business needs.”



➤ Key Findings

How satisfied are you with your company's ability to respond to change?

The emergence of “The Alert Enterprise” is not happening fast enough for corporate managers and business executives. Only about one-third of survey respondents, and just one-fourth among those from larger companies (with revenues above \$500 million) express satisfaction with their company's ability to anticipate and respond to evolving marketing conditions, operational challenges and business requirements. By comparison, some 30 percent of all respondents and 36 percent of those from larger companies, are dissatisfied with their ability to anticipate and respond.

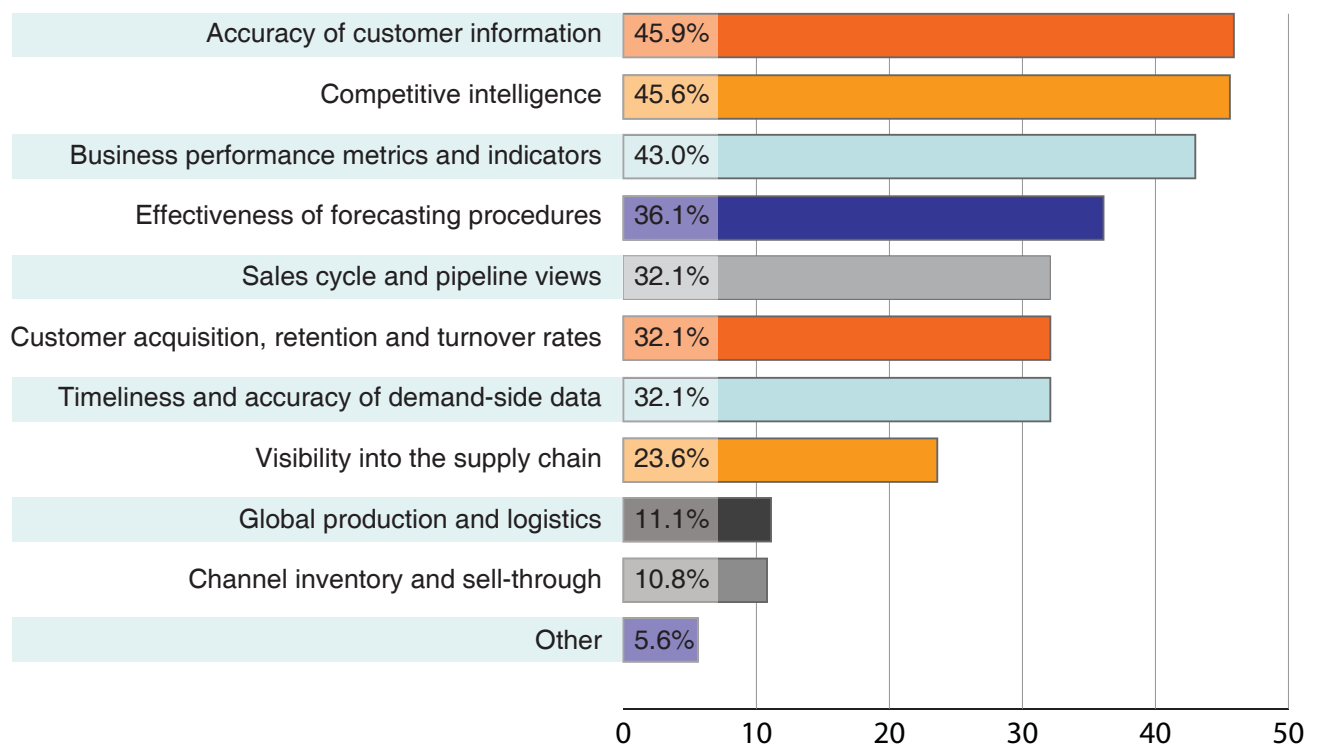




Key Findings

What factors most impact your company's level of alertness?

The factors most critical to improving a company's level of alertness include accurate customer information, competitive intelligence and business performance metrics, according to respondents. Those areas of insight make the top three list for the total survey population as well as the respondents from large companies. However, among larger companies, performance metrics and indicators are the strong number one choice, selected by some 51 percent of respondents.

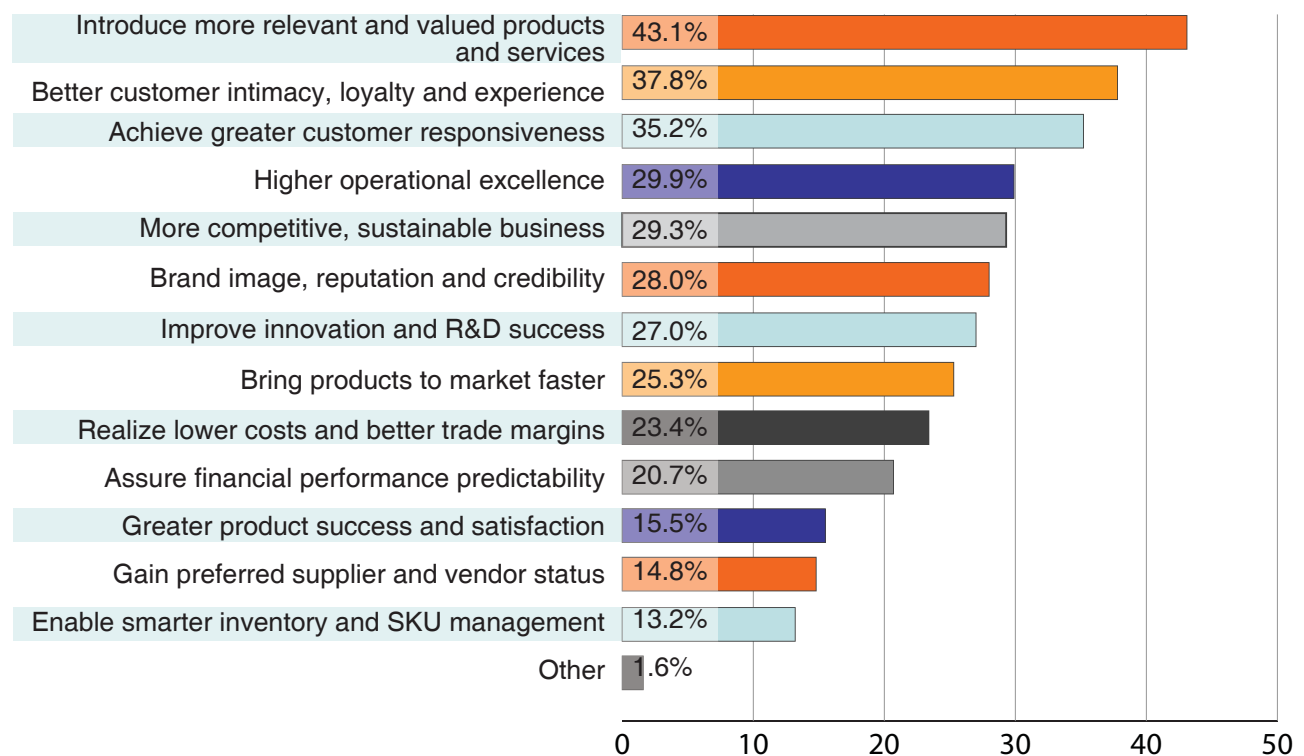




Key Findings

How would higher levels of alertness help differentiate your company?

The ability to introduce more relevant products and services is far and away the most significant competitive advantage executives seek from becoming more alert and responsive to business change. This was the number one choice for all respondents, as well as those from larger companies. However, improved operational excellence was a strong second for larger companies, while falling farther down on the priority list for all respondents. Improved customer loyalty and intimacy made the top three among both groups.

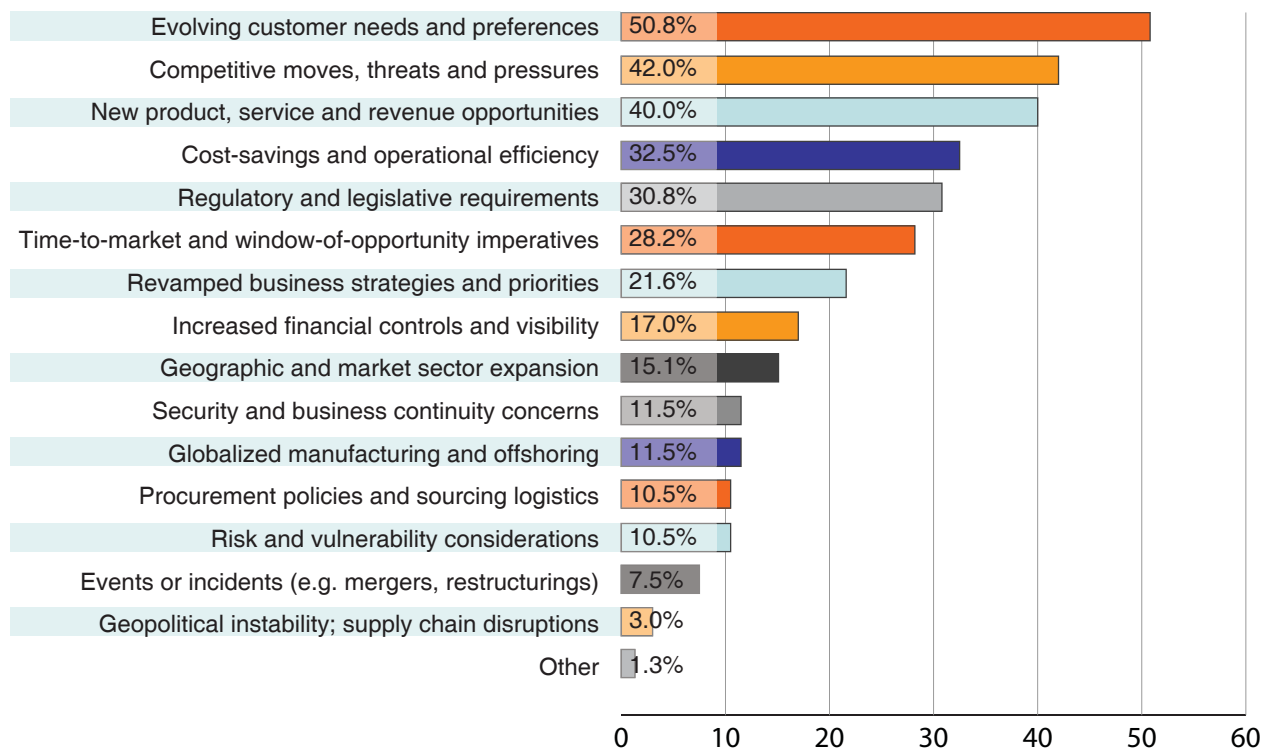




Key Findings

What are the leading factors requiring you to modify business processes and introduce applications?

Response to business change frequently requires the modification of business processes and introduction of new applications within the enterprise. The most critical business factors driving demand for process and application changes are evolving customer preferences, competitive threats and pressures, new product and revenue opportunities, and the need for greater operational efficiency, according to all respondents. Changing regulatory and legislative requirements were also high on this list. For larger companies, regulatory change was the number one factor requiring process modification and new applications.

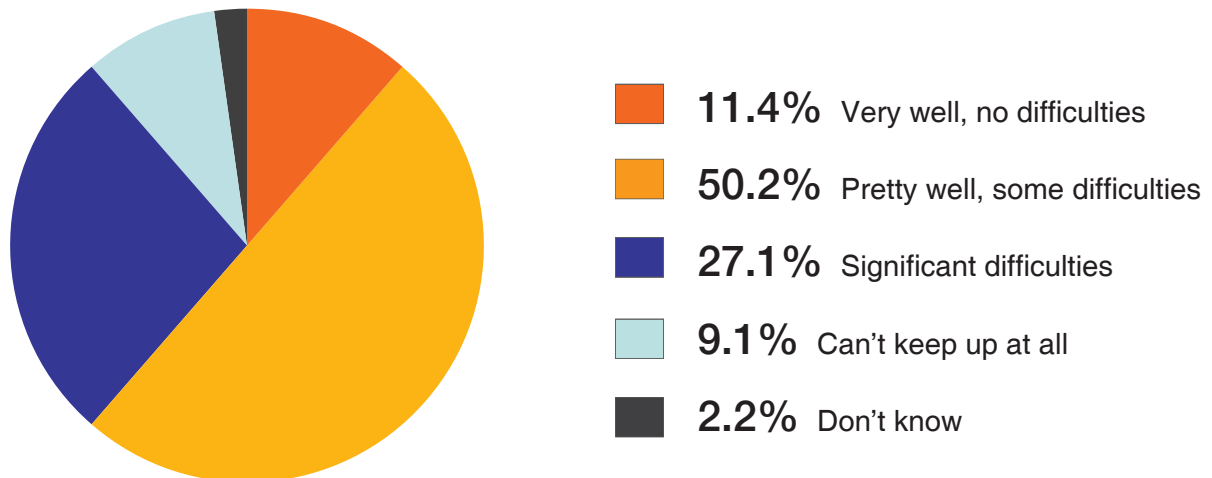




➤ Key Findings

How well is your IT department keeping pace to change key business processes?

Speed of change is outpacing the ability of IT departments to deliver new applications and modify business processes. Only about 11 percent of all respondents and 8 percent of respondents from large companies with revenues above \$500 million say their IT departments are having no problems. Although approximately half of the respondents give their IT departments the equivalent of a “C” grade in their ability to keep pace, some 36 percent report their company’s IT departments are having “significant difficulties” or “can’t keep up at all.” Among larger companies, some 45 percent of respondents reported having significant problems or worse.

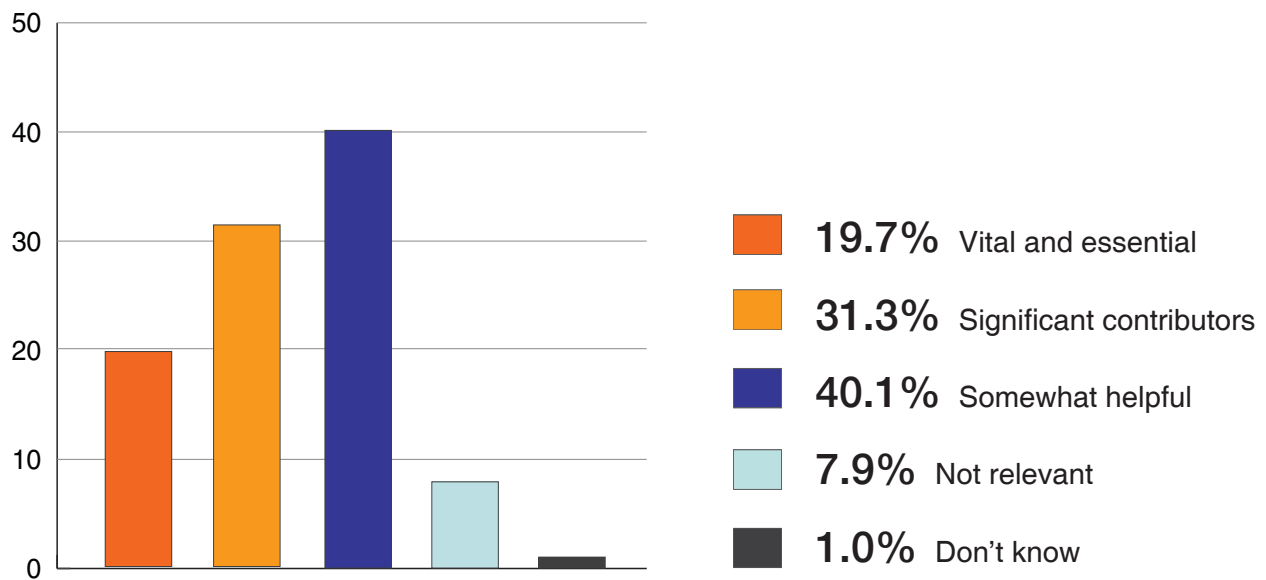




Key Findings

How helpful is IT in assisting your lines of business in meeting quarterly objectives and deliverables?

Business executives generally see IT as contributing to their short-term business objectives. Approximately half say the contribution is significant, if not vital, while less than 8 percent view the contribution as “not relevant.” This breakdown is consistent with the views of respondents from larger companies.

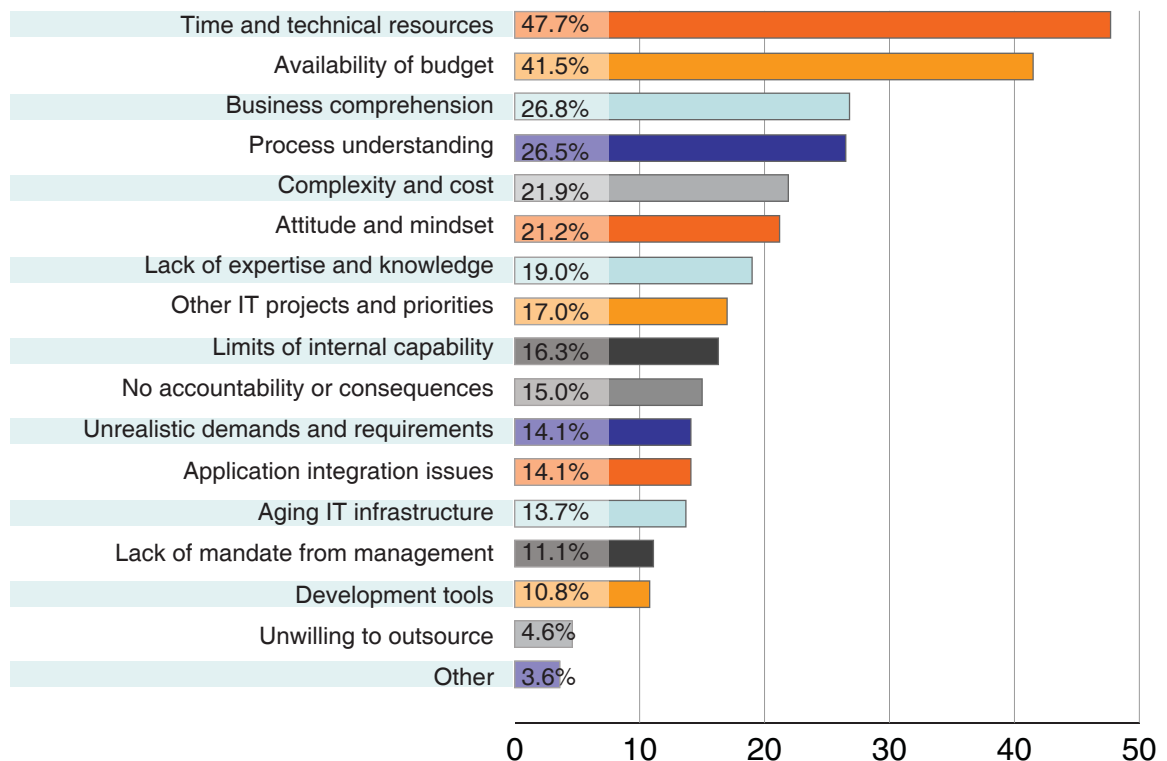




Key Findings

What factors inhibit IT's ability to quickly fix and improve business processes?

Not surprisingly, resource constraints and budget limitations are identified by respondents as the leading inhibitors to IT's ability to fix and improve business processes. However, a lack of understanding of the business and of business processes were also identified frequently by respondents. These two factors were highlighted even more (at 37 percent and 31 percent, respectively) by respondents of larger companies. These responses underscore a need within IT to develop new skills and knowledge in these critical areas.

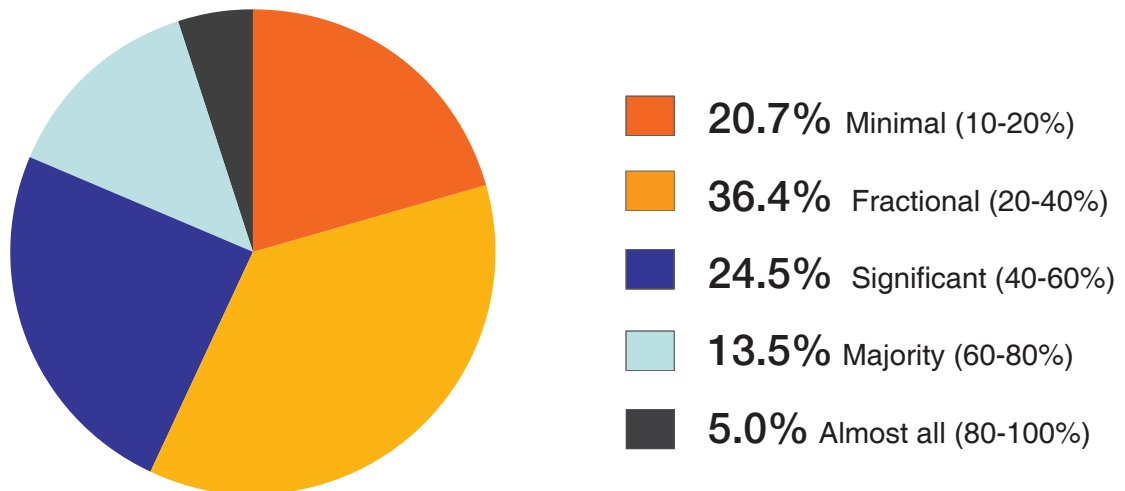




➤ Key Findings

What percentage of your company's core business processes need an IT fix?

There is a huge backlog of work facing IT departments in companies of all sizes. Based on response rates, an average of 40 percent of all core business processes are currently in need of IT attention. The average is 45 percent among larger companies, where some 54 percent of executives say at least 40 percent of their business processes need IT attention.

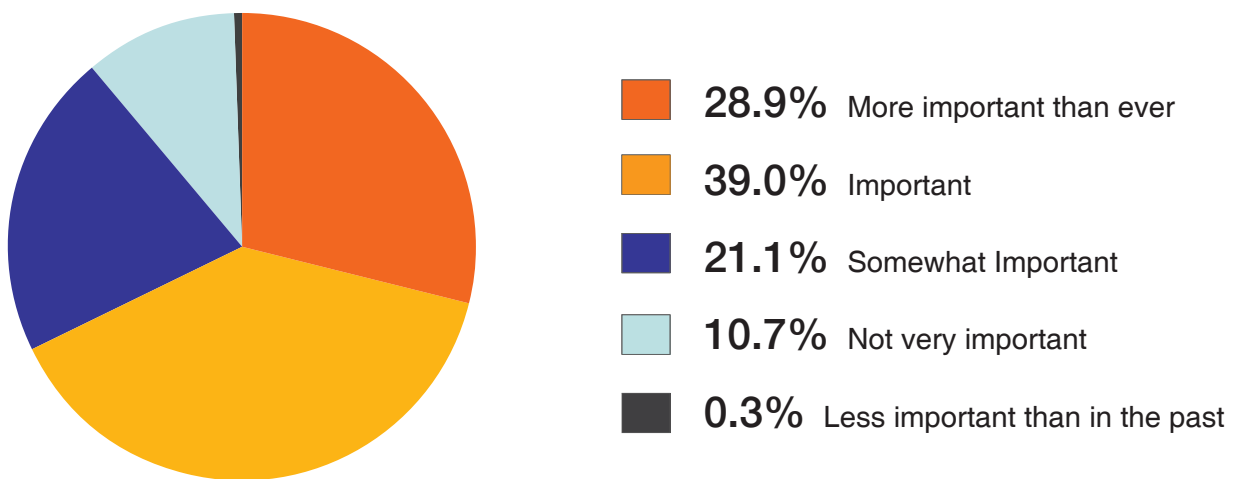




Key Findings

How important is IT in creating market differentiation?

IT does, indeed, matter. Some two-thirds of all respondents, and more than three-quarters from larger companies with revenues above \$500 million, said IT plays an important role in creating differentiation for their companies, products and services. Only about 10 percent of respondents – and only 5 percent among larger companies – said IT was “not very important” to market differentiation. Virtually none of the respondents believe IT is less important than in the past in creating differentiation.

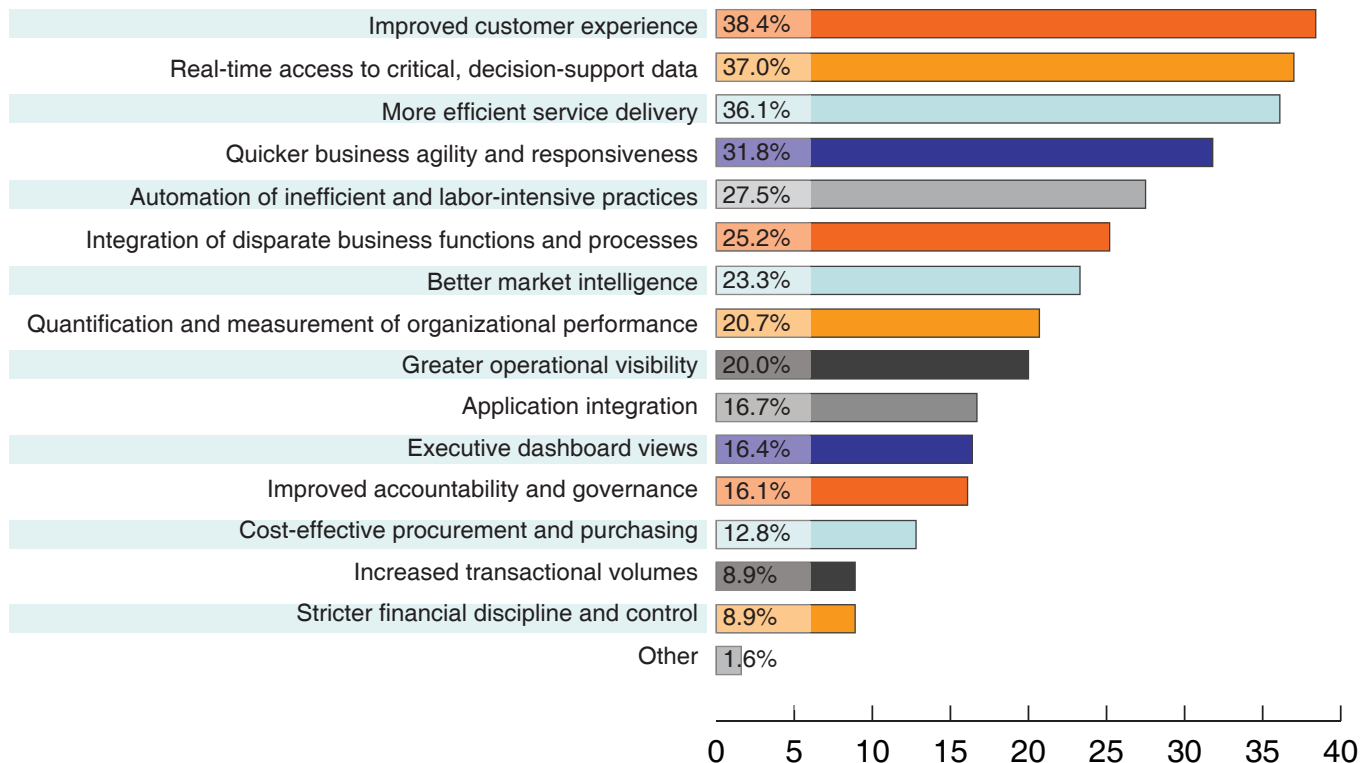




Key Findings

What should the strategic priorities be for IT in your organization?

Business executives point to a wide range of information requirements and business process issues as areas of strategic priority for IT. Among all respondents, the top four priorities mentioned are improved customer experience, more efficient service delivery, real-time access to decision support data, and improved business agility and responsiveness. Priorities for larger companies are somewhat more focused on productivity and efficiency. Their top four priorities, in order of importance, are real-time access to decision support data, integration of disparate business functions and processes, more efficient service delivery, and automation of inefficient labor-intensive practices.

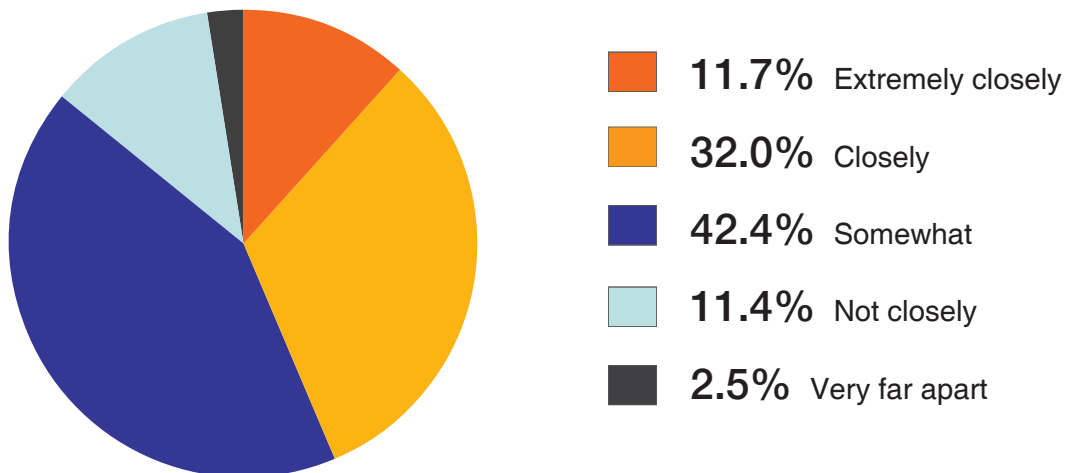




➤ Key Findings

How well do IT activities in your company map with your strategic priorities?

A significant gap exists today between what executives believe should be the strategic priorities and the actual activities of IT. Only about 43 percent of all respondents, 37 percent among larger companies, say IT activities are closely aligned with strategic priorities. This gap is undoubtedly the result of many factors, including resource and budget constraints and a lack of understanding of strategic business issues and business processes (see page 15).

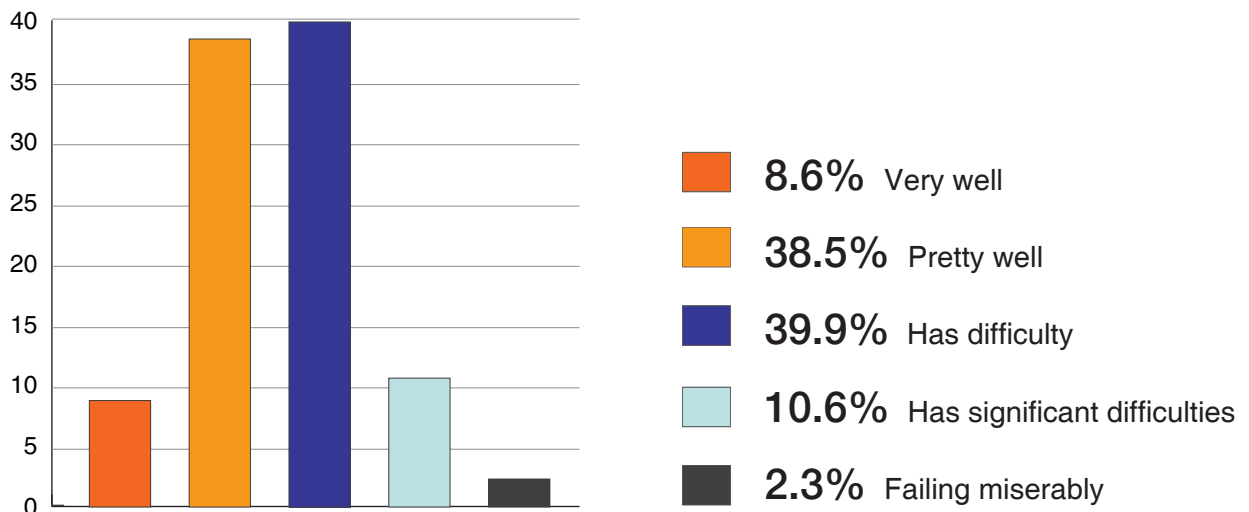




Key Findings

How well does your IT organization demonstrate business value and ROI?

Without strategic alignment, demonstrating business value and ROI is difficult. More than half of all respondents say their IT organization has difficulty in this area. This breakdown is consistent with the views of respondents from larger companies.

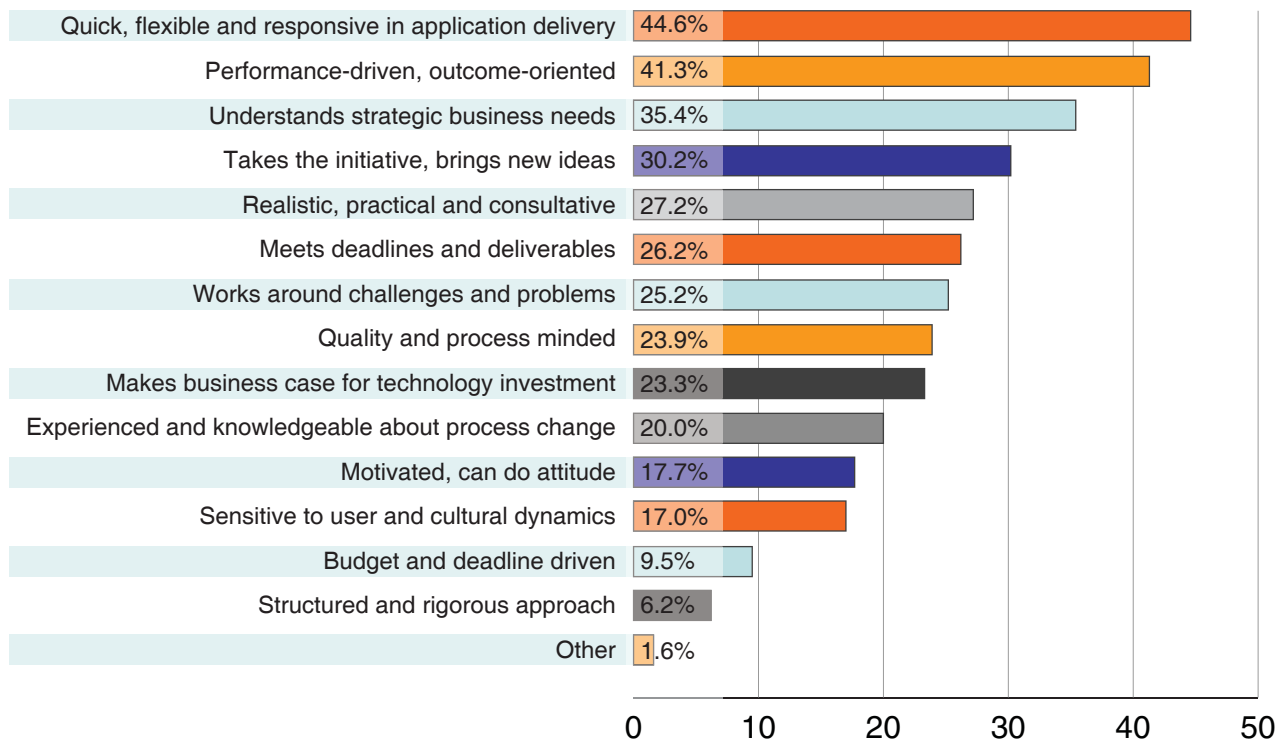




Key Findings

What essential qualities and disciplines would you like to see in your IT organization?

Executives want an IT department that gets the job done right and thinks about technology in a strategic business context. There is significant consistency among respondents from companies of all sizes about just what their IT Dream Team should look like. It must be flexible and responsive in delivering applications, performance-driven and outcome oriented, understand strategic business issues, and bring new ideas to the table. The only difference in the responses from larger companies is that quality and process mindedness replaces new ideas for the fourth most important quality.

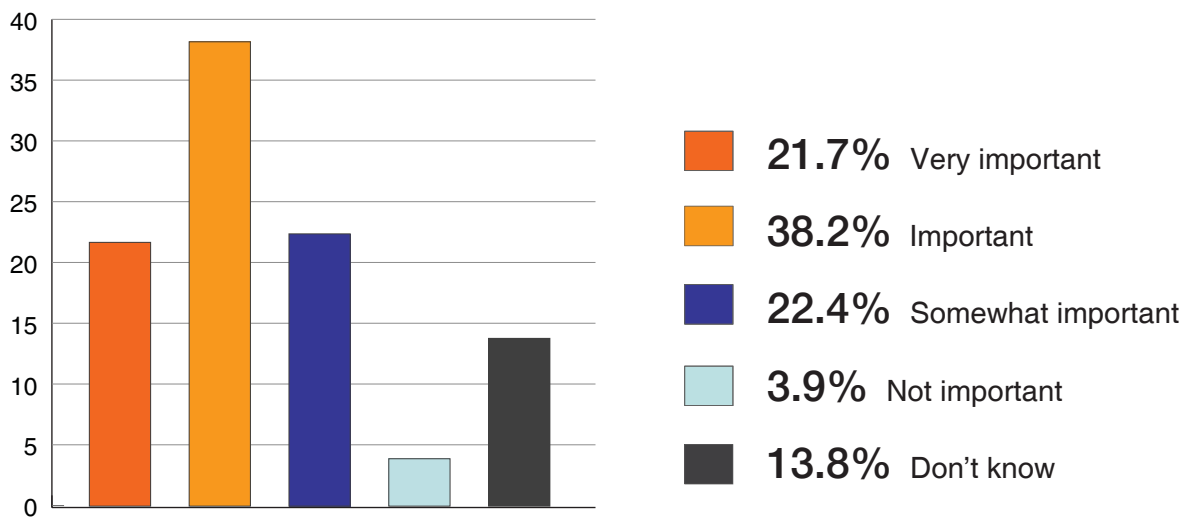




Key Findings

How important do you think the adoption of Service Oriented Architectures will be in helping companies become Alert Enterprises?

There is a significant sentiment among business executives that SOA will become a critical enabler of the Alert Enterprise. Some 60 percent of survey participants, 64 percent among larger companies, believe SOA will be important in becoming an Alert Enterprise.

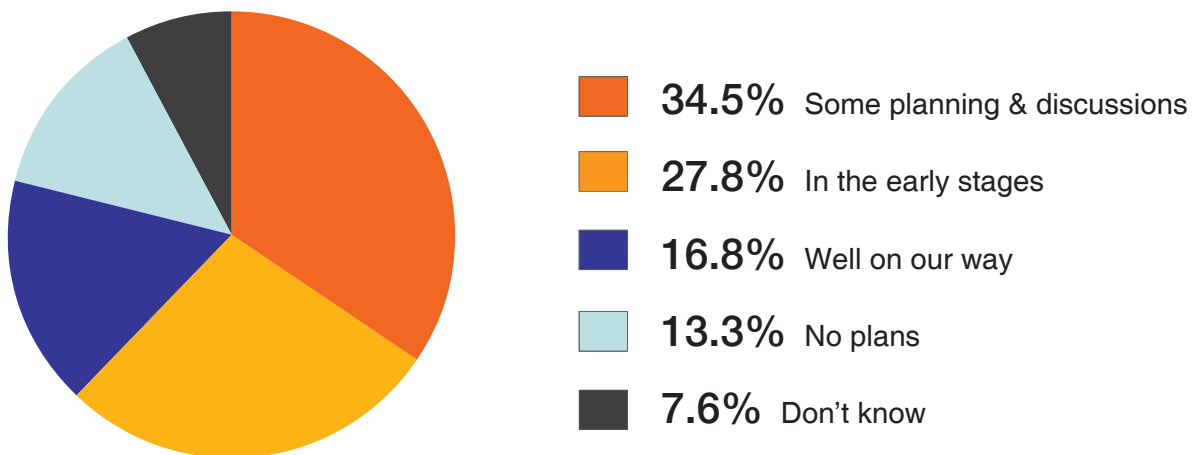




➤ Key Findings

To what degree is your company embracing new Service Oriented Architectures and Web services?

While few companies are far along in their implementation of SOA and Web services, a very high percentage is at least in discussions. Only about 14 percent of respondents, 7 percent among large companies with revenues above \$500 million, say they have no plans to implement SOA. Another 8 percent say they don't know.

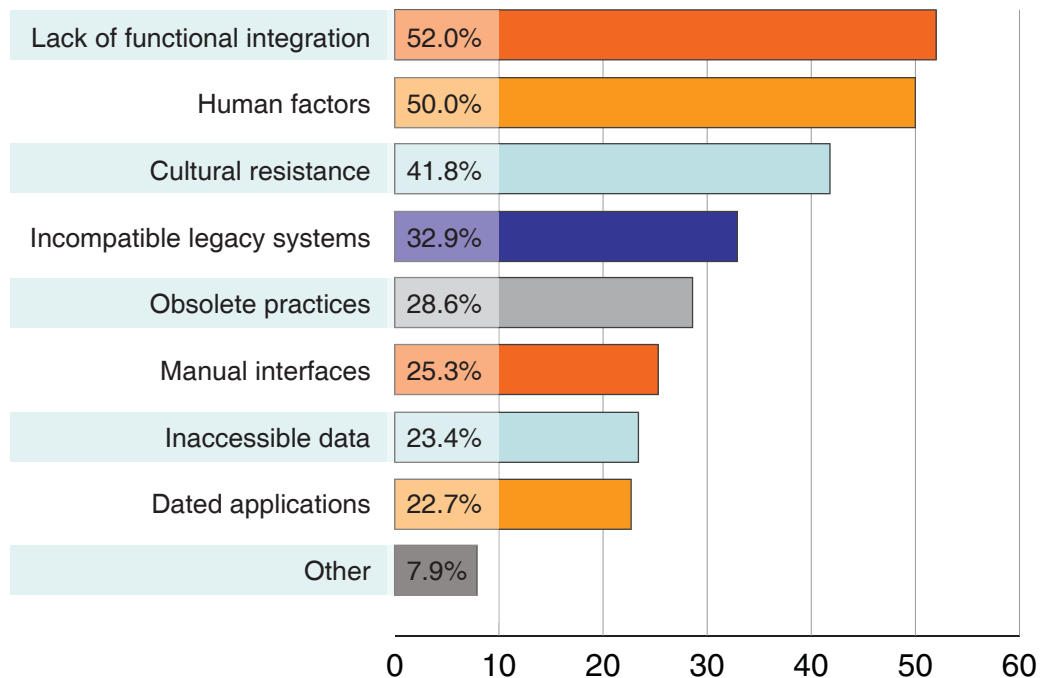




Key Findings

What are the obstacles to quickly modifying core business processes?

When it comes to process innovation, you need to get systems and people talking to each other – and neither is easy to do, according to survey participants. A lack of functional integration across the organization is seen as the biggest obstacle to modifying core business processes, but human factors and cultural resistance are close behind.

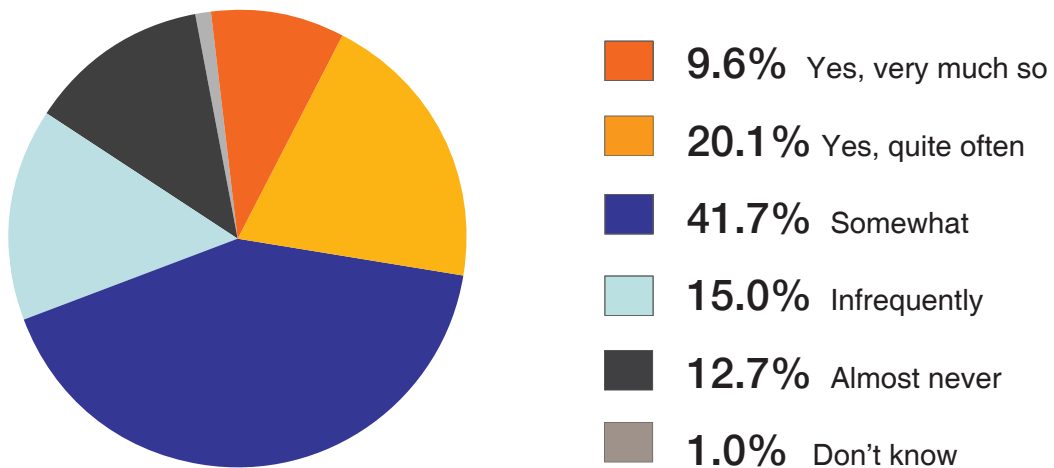




➤ Key Findings

Do you have the ability to get real-time views into the state of critical business processes?

Existing information systems clearly are not providing the necessary access into relevant, real-time views of the business, according to executives. Looking at the business from a rear view mirror is still very much the vantage point of most companies. Only about 30 percent of respondents, 25 percent among larger companies, think they often have the ability to get real-time views into their operations and business processes. More than a quarter of respondents say they can access this kind of information either infrequently or almost never.

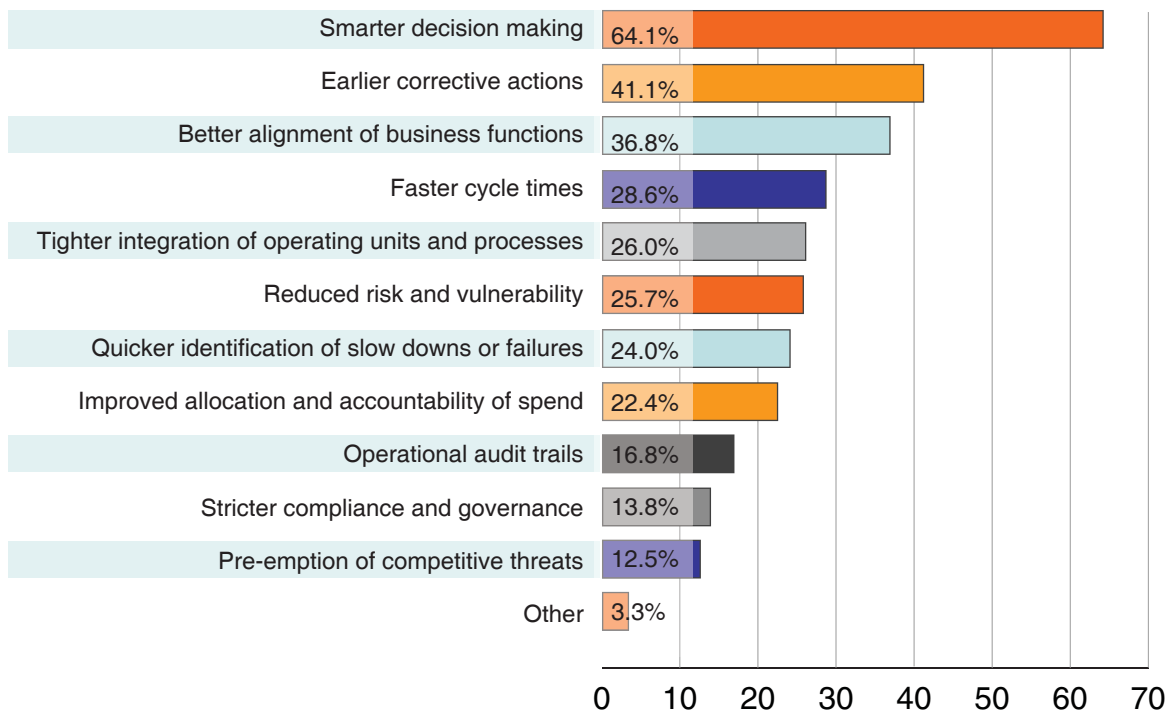




Key Findings

In what way would real-time operational data improve business outcomes?

Better decision making is seen, far and away, as the biggest pay-off of improving access to real-time operational data. Improvement in decision making is closely coupled with the second-most important benefit, earlier corrective action. However, real-time information access is also seen as having value beyond improved decision making. Respondents from companies of all sizes also point to improved alignment of business functions and integration of processes as major benefits of tapping into real-time informational access.





➤ Creating the Alert Enterprise

A webMethods Perspective

Enterprises have long recognized the need to better sense and respond to business change. What's different today is that ubiquitous access to information and real-time communications have fostered an "always on" business culture where decision making has become a "just-in-time" process. As a result, on-demand access to real-time decision support data has emerged as a top priority of Global 2000 audiences, followed closely by the need to ensure greater process adaptability.

Based on the results of the Alert Enterprise Audit, most executives would endorse this perspective while harboring serious doubts about their own organization's ability to compete within this new era. Given the increasing pace of business change, this is troubling as the Alert Enterprise that encapsulates these requirements is likely to become the dominant model for 21st century business. This is particularly true as enterprises are increasingly valued on the basis of their knowledge worker productivity.

What distinguishes Alert Enterprises from others is a well-developed capacity to respond to change, react to opportunity and pre-empt risks. But, what exactly are the components of this business model for "just-in-time" decision making? More importantly, how does one become an Alert Enterprise?

First, better access to real-time information is needed to better assess operational performance.

What this information enables is smarter decision making, better alignment of business functions, earlier corrective action and tighter integration of business units and processes. For example, one of the largest banks in the United States was able to leverage real-time performance monitoring to accelerate decision making in its loan approval process. By reducing these cycle times, they were able to respond faster to inquiries and grow market share as a result.

Alert Enterprises differentiate themselves by recognizing that a single data point rarely tells the whole story. Likewise, they also understand that the value of information typically diminishes quickly in conjunction with its age. By leveraging real-time operational visibility spanning all of their business processes, Alert Enterprises can proactively identify and pursue new opportunities.





➤ Creating the Alert Enterprise

Secondly, the ability to readily act upon this information is also required. If operational insight is to deliver more than just additional frustration regarding missed opportunities, more adaptive processes are needed. This entails integrating the decision making process with your underlying operations so that various responses can be easily configured to deliver the optimal outcome.

Case in point: A leading financial services firm catapulted itself to a number one market share position through its ability to deliver customized services meeting unique end-user requirements that its competitors could not match. Likewise, a Fortune 500 distributor was able to quickly add \$200 million in additional revenue by reconfiguring its processes to create a “touchless” fulfillment channel that capitalized on a rival’s departure from a key market segment.

Finally, the right technology is needed to make it happen. More specifically, you need to institutionalize these capabilities within your IT organization so that these efforts can be replicated over the long-haul to drive continuing market distinction. As reinforced by the Alert Enterprise Audit, this is a challenge for most organizations due to the limitations of their legacy systems and legacy processes.

Fortunately, new hope is emerging with the increasing corporate adoption of service-oriented architecture (SOA). In reality, what has long limited the ability to readily change core processes or secure relevant information in a timely manner are the huge, monolithic systems – first the mainframe and later ERP – that drive businesses. Due to their inherent lack of flexibility, they often make it impossible to sense and respond to business change in truly meaningful ways.

However, what if new processes could be simply snapped together with the flexibility of building blocks? That is the premise of SOA, which breaks these legacy systems down into much more useful components. As a result, enterprises can respond to business change much more quickly, cheaply and effectively as new processes targeting these additional requirements can be readily assembled from existing parts.

The end result is long-sought process adaptability, which is enabled by this “plug & play” approach. This is particularly true as these new components are defined as business services such as “verify credit” as opposed to archaic computer commands, which means that new processes can increasingly be assembled in an entirely logical manner by business users themselves.





➤ Creating the Alert Enterprise

Going a step further, these process components can also be infused with additional capabilities that render them process-aware. One of the most fascinating developments in recent business history has been the ability to track an overnight package in real-time regardless of its location. Just imagine having this level of granular insight into the ways in which your business processes operate. Instead of continuing to react after the fact to unexpected events, you would be able to proactively respond with corrective action in time to seize upon these opportunities.

Ultimately, the Alert Enterprise concerns itself with more than just managing business processes. Rather, it focuses on enabling business process improvements. By continually measuring the status of these operations and marrying these KPIs (key performance indicators) to more adaptive processes, business change can become automatic. Embracing this recognition that “you can’t improve what you can’t measure,” one Fortune 200 high-tech manufacturer was able to eliminate defective orders by 75 percent from its supply chain while improving time-to-market. That is the promise of the Alert Enterprise – delivered.

Our experience shows that while these examples may be rare, they are not unique. Rather, each of these organizations shares an underlying commitment to common beliefs that are allowing them to overcome these hurdles and outpace their competition. By integrating the totality of their businesses, creating more modular applications and adaptive processes, and more effectively monitoring and better measuring real-time performance, companies can realize the promise of the Alert Enterprise.





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