

IT Strategy Assessment for Automotive Suppliers

Optimizing support for digital business models and innovation
helps to position IT as a business partner



The new digital automotive world offers Tier 1 automotive suppliers (Tier 1s) a plethora of opportunities to innovate around new business models and markets – provided they are prepared. Traditionally, CIOs have been valued for their ability to provide IT services at low costs (IT efficiency focus); in a digital world, it becomes vital also to automate and integrate business process solutions (IT effectiveness focus), and to support business model innovation (IT innovation focus). An IT strategy assessment provides a detailed picture of IT's current digital preparedness and offers clear direction for optimizing IT from the perspectives of IT efficiency, IT effectiveness, and IT innovation. Carrying out this type of assessment requires an understanding of both the automotive sector and the digital IT landscape, as well as a robust methodology. It is vital to involve the business, as well as the IT function, right from the beginning of the assessment.

Thinking ahead in automotive

In a digital world, everything is connected and consumers can choose to be online anytime and anywhere. This world offers automotive suppliers many opportunities to support customers in innovating business models and entering new markets. Vehicle configuration on a smartphone, aftersales service offers based on individual customer preferences, customer insights to guide new parts development, preventive car maintenance through predictive car state analysis – these are just a few of the opportunities for differentiation in today's automotive industry.

To profit from these opportunities, though, the IT landscape needs to be digitally prepared. The key is to ensure you have a truly digital IT strategy.

The challenge: balancing multiple and changing requirements

To develop the right digital strategy, IT needs to address three sets of requirements: IT efficiency, IT effectiveness, and IT innovation (see figure 1).

IT efficiency

Traditionally, CIOs in the automotive industry have had their performance measured primarily on their ability to fulfill IT requirements at the lowest cost. IT efficiency is still a key objective – and one that increases in importance as the demands placed on IT by end-users and functional departments continue to grow. However, an exclusive focus on IT cost efficiency may impede IT's ability to support business process excellence (IT effectiveness) and business

model innovation (IT innovation). All three dimensions must therefore be carefully aligned.

IT effectiveness

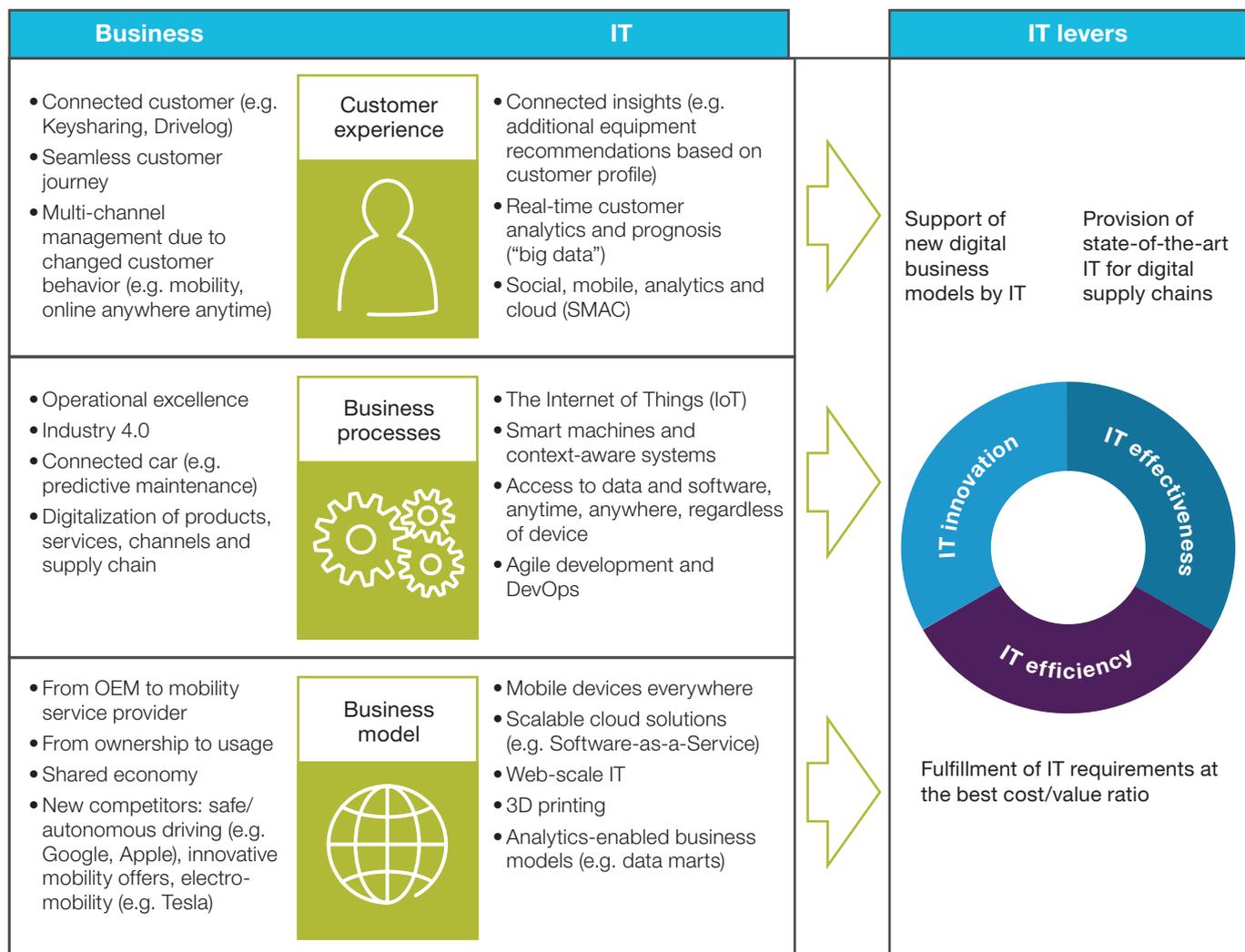
Automation of business processes through IT – making them agile and more efficient – is another traditional core task for the CIO, undertaken in close collaboration with the business. In a digital world, IT trends such as Industry 4.0 provide even more potential to optimize processes through data insights, connected machines and devices (the Internet of Things), and closer integration of Tier 1 automotive suppliers (Tier 1s) in the overall production chain of automotive OEMs. Building IT effectiveness can directly reduce your company's and your customers' operational costs, thus addressing a much larger cost share than IT costs alone.



IT innovation

Requirements relating to customer interfaces are subject to particularly rapid ongoing change. Here, IT solutions significantly shape the customer experience; an end-to-end multi-channel customer journey is unthinkable without IT support.

Figure 1: Business and IT trends within the automotive industry¹



Source: Capgemini

While traditional waterfall development approaches may suit large back-end systems, innovative IT solutions need to be developed and integrated quickly. In particular, marketing and sales are constantly pushing for new requirements that demand agile IT processes and innovative IT application solutions. However, these have to comply with your security, operation and architecture standards so that they can be operated sustainably.

Given the competitive landscape that the automotive industry faces, IT also needs to be able to support and foster new business models linked to trends such as autonomous driving, connected vehicles, and mobility services. IT's ability to deal with this type of innovation directly affects the company's ability to leverage new business opportunities and to grow new markets. Top-line (revenue) growth therefore depends directly on IT innovation.

¹ For further information see Capgemini's Cars Online 2015 and TechnoVision 2015

Six key dimensions of IT strategy assessment and realignment

The major challenge in defining an IT strategy is therefore to achieve the right balance between these three areas – IT efficiency, IT effectiveness, and IT innovation.

In assessing, and if necessary realigning, the IT strategy, there are six potential dimensions to consider (see figure 2 and descriptions below). Which dimensions you focus on will depend on your company’s individual situation and your relative weighting of IT efficiency, effectiveness and innovation. These weightings should be carefully determined before you start.

Figure 2: Key dimensions of IT strategy

	Key dimensions of IT strategy		Key questions	Main IT levers affected
	IT business support	Business support through IT department	<ul style="list-style-type: none"> How does IT support the business and which strategic requirements must be served? 	
	IT organization	Global orientation and IT tasks	<ul style="list-style-type: none"> How is IT set up globally in order to meet the business requirements? 	
	IT operating model	Internal and external provision of IT services	<ul style="list-style-type: none"> Which IT services are provided internally and to what degree are external IT partners used? 	
	IT applications and infrastructure	Worldwide landscape of business applications and IT infrastructure	<ul style="list-style-type: none"> Which applications support the business processes and who is responsible? How are applications operated? 	
	IT projects	Current change projects with IT contribution	<ul style="list-style-type: none"> What change projects are supported by IT and how are they steered? 	
	IT costs	IT cost, volume and distribution	<ul style="list-style-type: none"> What IT costs occur and are they competitive compared to market benchmarks? 	

Source: Capgemini

IT business support

IT governance should be designed to ensure a close link between business and IT, so that they work together to identify relevant trends quickly and then address them. At present, automotive suppliers often do not pay sufficient attention to overall management, and they do not involve the business enough.

The challenge for CIOs is therefore to position IT as an innovative business partner. To do this, it's necessary to understand strategic requirements in all business areas and evaluate these requirements from an overall IT perspective.

IT organization

Automotive companies act globally, and IT needs to do the same. Today, much activity is at local level, which results in a close match for individual OEM needs but makes IT industrialization difficult.

This topic requires a balanced approach, in which local and global IT units have distinct service responsibilities. Local units should ensure customer and market proximity and coverage of location-specific requirements; global units can facilitate synergies between IT units, drive IT innovation in a global effort, and steer IT services and applications towards an aligned target.

IT operating model

Within the IT operating model, you need to determine where to focus scarce IT resources. Often, legacy solutions eat up more than their fair share of the budget and expertise, but in a digital world, the focus should be on IT services that have a direct interface with the business and the customer, and those that drive IT innovation.

Strategically chosen IT partners can offer support in areas outside the prime focus of a company's IT function, helping to build up a more flexible resource base and introduce innovative IT solutions. To take full advantage of this benefit, avoid fragmented IT partner structures and make sure there is a strategic sourcing approach.

IT applications and infrastructure

High-performance ERP, CRM and BI applications should be offered and, where possible, standardized across the organization. For historical reasons, many automotive suppliers have fragmented application and infrastructure IT landscapes. These cost money to run, and may result in suboptimal business transparency and customer relationship management.

The key design criteria of the application landscape are the business domains and the processes to be supported. This perspective allows you to determine where agile solutions

with high flexibility are needed, and where stable core processes can be supported by efficient backbone solutions. The division of responsibility for application management between central and local IT, as well as the business, must reflect which type of application is being dealt with. The IT infrastructure must also provide a way to integrate external service providers, suppliers and retailers.

IT projects

The IT project portfolio must be aligned with the overall strategic ambition of business and IT. That means there must be an appropriate balance between IT projects that are needed to run and transform the business versus projects that drive business and IT innovation (e.g. digital customer channels). At present, many automotive companies lack a systematic portfolio management approach at either organization or local level, with the result that scarce IT resources are not used optimally to drive business and IT objectives.

Mapping each IT project to the relevant business domain will help to assess whether the project budget reflects business priorities in the different functional areas. If new system developments and system enhancements represent an excessively high share of the portfolio, this may be a sign that better IT architecture management is needed. Improving this aspect of IT efficiency will help avoid the escalation of IT development and operation costs that can result from an over-complex IT landscape.

IT costs

A detailed IT cost assessment shows whether IT spend – as a whole and in specific areas – is aligned to IT and business priorities. IT spend that is below the market average can indicate underinvestment in IT. Evaluating the IT operating cost ratio may also reveal opportunities for improving IT efficiency, for example by harmonizing the IT application landscape where application development and operation costs are high.

Our recommended approach to strategy assessment

We recommend a four-phase approach that helps your company to clearly understand how ready you are to succeed in a digital world. The approach is designed to ensure the involvement of the business, as well as of the IT function, throughout. A typical assessment is illustrated in figure 3 on page 6.

The first of the four phases defines the scope of the assessment. The six dimensions of IT strategy are prioritized according to the company's objectives, and guiding strategic business and IT principles are identified.

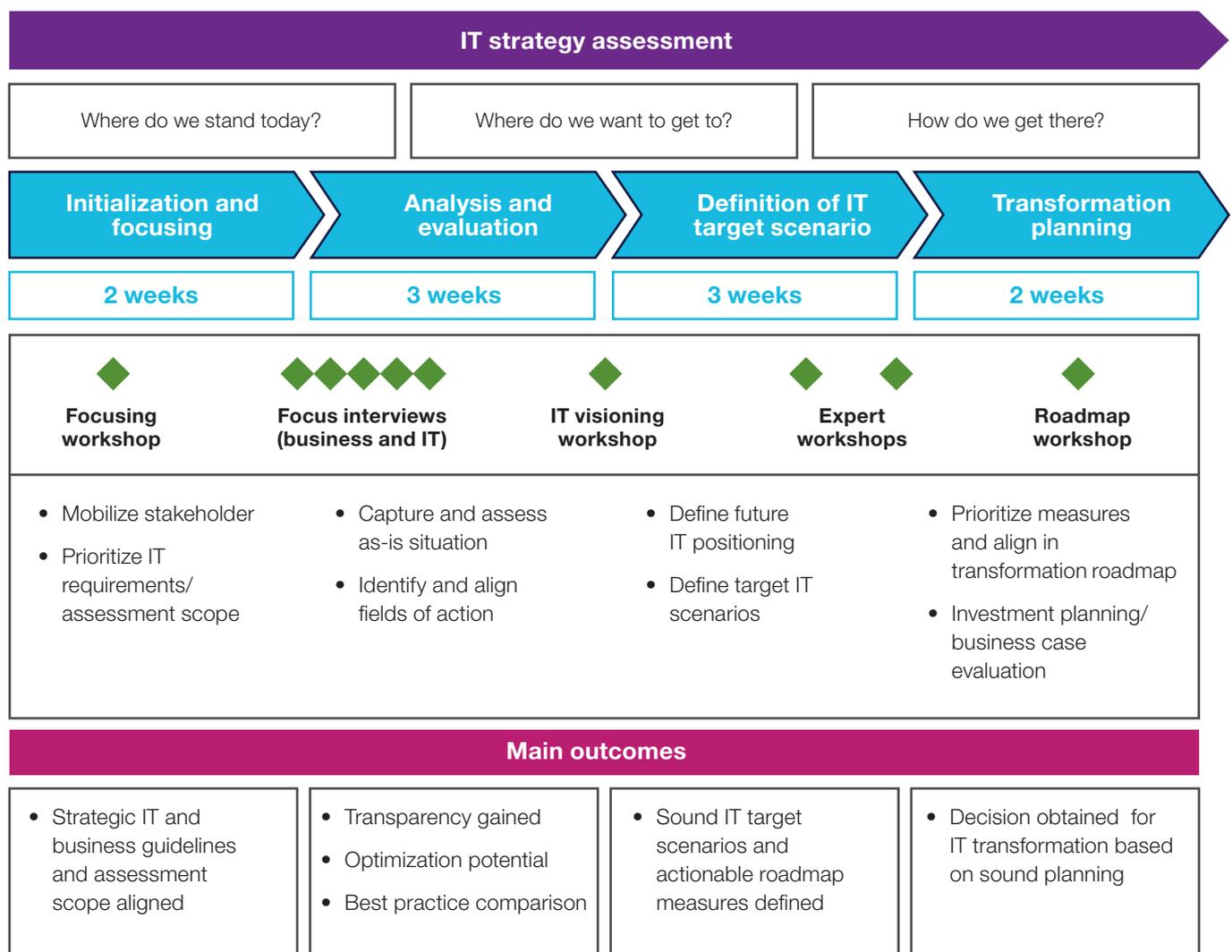
The second phase provides a factual basis for development of the target state for IT. Based on a structured IT transparency questionnaire and focus interviews on both business and IT sides, IT is evaluated in all six dimensions. The assessment results are summarized in a comprehensive IT assessment fact book, which also describes the opportunities for optimization that have been identified.

The third phase defines the target state for IT, describing in detail the measures required to realize your goals.

In the final phase, these measures are prioritized according to the effect on your predefined business and IT goals, and an estimate is made of implementation effort. An overall IT transformation plan is then produced, together with a business case including the estimated costs and benefits to help management decide whether to proceed with the proposed transformation of the IT function.

The whole process typically takes eight to 12 weeks depending on scope.

Figure 3: Recommended IT strategy assessment project approach



Source: Capgemini

Next steps

A structured IT strategy assessment will tell Tier 1 automotive suppliers about their organization's state of digital readiness. It will also provide clear direction for advancing their IT and for maximizing the return on their IT and digital investments.

Capgemini's proven approach to these assessments delivers sound, sustainable results that are appropriate for your specific situation. Our strong business focus helps you optimize IT to achieve full support for digital supply chains and digital business models.

Capgemini is recognized by analysts as a leader in digital transformation. Through our long-standing partnership with the Massachusetts Institute of Technology (MIT), we continually realign our approach with the latest research insights.

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