

International Conference
Session Summaries

BUTLER COX
FOUNDATION



Marketing the Systems Department
Dublin, 9-11 October 1988



Marketing the Systems Department

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INTRODUCTION

The annual International Conference for members of the Butler Cox Foundation was held at the Burlington Hotel, Dublin, from 9-11 October 1988. The aim of the conference was to help Foundation members recognise how marketing could be used in the context of in-house systems functions. This document contains summaries of the presentations made at the conference.

The summaries were prepared by Butler Cox consultants during the conference and are intended as an aide-memoire. They are not a verbatim transcript, but present as faithfully as possible an interpretation of the main points made by each speaker. For the sake of brevity, some points have been condensed or omitted.

Where appropriate, the summaries include a selection of the visual aids used by the speakers. We have also included a brief summary of the main points to emerge overall from the conference.

INTRODUCTION

La Conférence Internationale réservée aux membres de la Fondation Butler Cox s'est tenue cette année à l'Hôtel Burlington de Dublin du 9 au 11 octobre 1988. Le thème principal de cette conférence est de sensibiliser les membres de la Fondation à la nécessité et à l'importance d'une promotion active (marketing) de la fonction informatique au sein de leur entreprise. Ce document présente le sommaire des présentations tenues pendant la conférence.

Ce sommaire a été préparé par les consultants de Butler Cox pendant la conférence et leur objet est d'être un aide-mémoire. Ils ne sont donc pas la transcription des sessions mais résument, de façon aussi fidèle que possible, les idées principales présentées par les conférenciers. Pour garantir la brièveté de ce document, certains points ont été volontairement condensés ou omis. Là où nécessaire, les supports audio-visuels sont incorporés dans le document.

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Summary of the Conference

David Butler, Butler Cox

The purpose of the conference was threefold:

- To provide delegates with a better perspective on marketing and its application to the systems function, and to allow the issues to be seen more clearly.
- To help delegates shape their views about the subject either by confirming or questioning their preconceptions.
- To provide insights, through the use of case histories.

The need to market the systems department arises for three reasons. The first is enlightened self-interest on the part of the systems director. There is much to be gained simply by reminding the organisation of what the department can do and of the skills it has. Second, marketing is essential if the business is to exploit IT effectively. Systems is not like other professions: people know when and how to use a lawyer; they have to be educated about how and when to use systems. Third, marketing is essential if the systems department is to retain its influence. Competitive suppliers, in the form of facilities-management companies, and others, are only too willing and able to encroach on the systems department's hitherto protected in-house market. Systems directors would be foolish to believe that their organisation will *never* subcontract at least part of their systems services to a third party.

To retain influence, the systems department should be aiming to position itself not just as another competing service supplier, but as the competent, authoritative broker. Its aim should be to ensure that its customers automatically seek out its views and respect its advice.

The Need to Market the Systems Department

David Butler, Butler Cox

David Butler is chairman of Butler Cox. He described the research project on 'Marketing the Systems Department' as one of the largest the Foundation had ever conducted. The research showed that the members regarded the subject as highly important but also somewhat puzzling. What is a marketing policy and how is it implemented? In his presentation, he talked only about *why* the systems department should market its services — not *how*.

There were some objections to the concept of marketing the systems function. Some members said it was not necessary, others that it was impossible, others that it was wasteful. The objections, however, stem from a misunderstanding of marketing — it is not concerned just with selling. Marketing experts such as Philip Kotler define a hierarchy of marketing skills (see Figure 1).

Figure 1 The progression of skills

Kotler's hierarchy:

- ▶ Marketing = Advertising
- ▶ Marketing = Smiling a lot
- ▶ Marketing = Innovation
- ▶ Marketing = Positioning
- ▶ Marketing = Analysis, planning, control

According to experts, the hallmark of a true marketing enterprise is the sovereignty of the customer. The customer's needs take precedence over all internal considerations. Such firms are very rare — and especially so in the information technology industry. Butler Cox's preferred definition reflects this view: "Marketing is the deliberate management of the whole relationship between a supplier and a customer". This definition highlights how everyone in the systems department should be involved in marketing.

However, most systems directors believe that the basic attitudes of their staff are not merely distant from marketing concerns but positively alien to them. This means that systems departments often get stuck at the first or second level in Kotler's hierarchy, and never have a chance to think about (for instance) their market position.

Figure 2 (overleaf) shows how the systems department can be positioned in relation to its host organisation. It can enjoy good or bad relations with its customers and it can exercise a leadership role or just respond to market pressure. The optimum position depends upon the organisation structure and management philosophy of the parent organisation. In a decentralised, devolved organisation, trying to lead may be termed arrogance. In a centralised organisation, simply responding to demand may be too passive. The research also shows that success must be earned on both axes. If the basic positioning is wrong, no amount of improved relations will correct it. Most successful

LA NECESSITE DE PROMOUVOIR LA FONCTION INFORMATIQUE

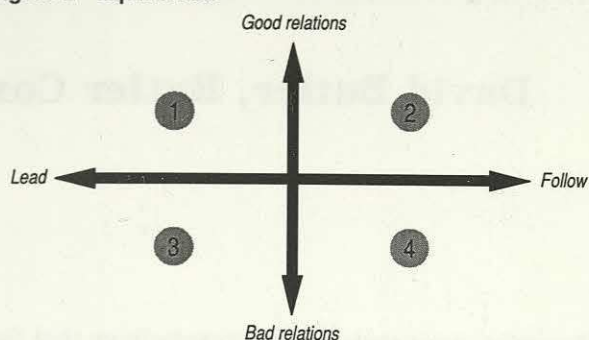
M. Butler ouvre la conférence en rappelant que l'étude menée récemment par Butler Cox sur le sujet de la promotion de la fonction informatique a fait apparaître que la plupart des Directeurs Informatiques regardent cette activité comme importante mais étonnante. Qu'est-ce qu'une stratégie de marketing et comment la mettre en application?

Il rappelle ensuite les grands éléments qui donnent à une politique de marketing informatique son caractère particulier: le client achète une promesse, pas un produit, le service est intangible et le client sera plus facilement critique d'un service que d'un bien tangible.

M. Butler présente ensuite les points principaux dégagés de l'enquête menée par Butler Cox. Il termine sur l'énoncé et la justification de quelques principes directeurs jugés nécessaires à une bonne approche promotionnelle de l'informatique dans les entreprises.

The Need to Market the Systems Department

Figure 2 Equilibrium



systems departments pursue a twin-track marketing policy aimed at improving their position on both axes.

The need to market the systems department also arises because of increasing competition. Systems departments used to be monopolists but, today, they face competition from at least five sources, illustrated by Michael Porter's classic analysis (see Figure 3).

Figure 3 Competition

Porter's five sources:

- ▶ Classical rivals
- ▶ Customers
- ▶ Suppliers
- ▶ Innovators
- ▶ Substitutes

There has never been a traditional competitor for the systems department but customers today are doing more of their own systems work. Suppliers are seeking to enlarge their role, through facilities management and in other ways. Package vendors offer the department's customers the tools they need to build their own systems.

Marketing an intangible service, like systems services, is particularly complex. Even with a tangible product, the promises made on its behalf are not literally true. A lipstick will not turn a woman into a great beauty; a car will not turn a man into a dashing hero. Such marketing pledges are known as 'metaphoric promises'. In the case of an intangible, the promise is all there is. The prospective customer cannot try the service in advance. He or she buys the promise, or nothing. The marketing of intangibles is also very people-dependent. It can easily go wrong, and customers are prone to be more critical of services than of products.

How will the systems director respond to these challenges? It is senseless to resist the competitive threats with open warfare. The systems department must learn to identify what it is uniquely qualified to do, and concentrate on that. It must seek opportunities to use external sources of systems services as part of its strategy. It must have the confidence to be humble, and shed the timorousness that makes it arrogant. The challenge is to change the basic attitudes of systems staff, to educate them to adopt a market-oriented customer viewpoint. Whilst the educational task is massive, it can be achieved, given the right leadership from the systems director.

Marketing Professional Services

Aubrey Wilson

Aubrey Wilson is acknowledged internationally as one of the pioneers of professional services marketing. He has published nine books on marketing and his most recent, *Practice Development for Professional Firms*, is established as the standard work on the subject. Mr Wilson was founder and chairman of Industrial Market Research Limited and is now an independent consultant.

A common feature of all marketing-oriented companies is that the customer is at the top of the organisation chart. The main aim of such companies is to help their customers become richer. The customer-oriented way of doing business comprises four basic elements:

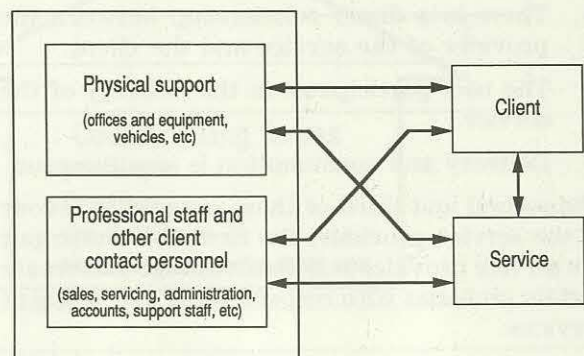
- Sensing needs (business, technical, and human).
- Responding to enquiries in terms that are meaningful to the customer.
- Seeking opportunities to provide additional products/services.
- Satisfying needs at commensurate prices.

The fundamental elements of the service system are the visible part — the physical support and the personnel — and the invisible part — the infrastructure. These come together to create the service that the client sees as an entity (Figure 1).

SERVICE BUSINESSES HAVE COMMON ELEMENTS AND CHARACTERISTICS

Most service businesses do not offer a single service or serve a single client. They have a range of services and a number of clients that all have an impact on each other and on the service itself. The quality of the service can be seriously impaired by the client's behaviour. Almost all service businesses have a core — what the business is about — and most have added 'satellite' services that match the quality of the core service (Figure 2 overleaf). Clients, however, have no perception of the relationship between the core service and the satellite services. They see only a small portion of the total business anyway and are not concerned with problems that may arise in the parts of the business they do not see. All they know is

Figure 1 The fundamental elements of the service system



that they are getting or not getting the service they require. The cost of the service does, however, appear to be high, in view of the limited amount of the organisation that clients see and the limited amount of time that the service provider spends with them.

There are four dominant characteristics of services:

- They are intangible — they meet client needs in terms of efficiency, safety, and management.

LE MARKETING DE SERVICES PROFESSIONNELS

M. Wilson met d'abord en valeur les caractéristiques principales communes à toutes les industries de service. Il explique ensuite les objectifs principaux de toute action de marketing et le rôle déterminant que joue la communication dans cette action. M. Wilson insiste sur le fait que le marketing de services professionnels demande des talents particuliers: il faut, en effet, savoir s'adresser aux éléments d'incertitude qui existent dans l'esprit du client, répondre à ses problèmes et comprendre ce qui crée chez lui l'image d'un professionnel pour être certain de bien s'y conformer. M. Wilson conclut en rappelant les huit points pratiques nécessaires à satisfaire un client.

Figure 2 The basic service is surrounded by a group of satellite services

Service	Core service	Satellite services
Accountants	Auditing	Financial advice Interfirm comparisons Executorship Executive search Management consultancy
Banks	Holding, transferring Providing money products	Payroll Night safes Trustee Safekeeping Insurance
Leasing	Provision of capital goods	Product assessment Product viability Insurance

- There is a direct relationship between the provider of the service and the client.
- The user participates in the delivery of the service.
- Delivery and consumption is simultaneous.

The second and third of these operate in favour of the service provider; the first and fourth put the service provider at a disadvantage and create certain problems with respect to the marketing of services:

- Physical display is impossible.
- There can be no demonstration without providing the service.
- Warranty is difficult.
- It is not usually possible to provide samples.
- Packaging is of marginal relevance, in many cases.
- Patent protection is impossible.

MARKETING'S OBJECTIVE IS TO CONVINCE THE CUSTOMER

For a transaction to take place, a client needs to answer five questions positively and the objective of marketing is to produce those positive answers:

- Does a need exist?
- Is the service on offer the right one to meet it?
- Is the firm capable of providing it?
- Is the fee acceptable?
- Is the completion time acceptable?

MARKETING IS A SERIES OF SUBCONCEPTS

How does marketing set about doing this? The marketing concept is, in fact, a series of sub-concepts which, together, create the marketing-oriented way of doing business. There are eight of these subconcepts:

- Decide what business you are in.

- Identify to whom you want to offer your services.
- Attempt to differentiate yourself.
- Obtain an understanding of your client's needs. Extensive marketing research is not necessary. Just asking clients for their reaction can be very revealing.
- Identify what advantages you have over your professional and other competitors.
- Be certain that you are using all available, permissible, and acceptable marketing communication tools.
- Plan and integrate the marketing effort. This is not a difficult process. The kind of inputs indicated in Figure 3 provide a useful guide.
- Obtain feedback on the effects of the marketing and planning effort.

Figure 3 Major headings for a simple marketing plan

Situation	Relevant significant facts about the market, the clients, competition and the service.
Problems and opportunities	From situation above, identify issues which are problems to be avoided or opportunities to be exploited.
Objectives	Statement of purpose of the plan in quantitative and qualitative terms and over a stipulated time period.
Strategy	The general approach to the achievement of the targets (usually a three- to five-year plan).
Tactics	Methods, tools, message, media to be adopted for the achievement of the objectives (usually a 12-month plan).
Evaluation and control	Methods for assessing effectiveness of tactics and controls for adjustment.

COMMUNICATION PLAYS A MAJOR ROLE IN MARKETING

Clients still need to be made aware of your existence. If they are not aware that you exist, they certainly will not come to you. A client has to understand the message, see the relevance of the message to his own needs and be convinced that you can deliver what you offer. When you have visibility, understanding, relevance, and conviction, you get action. Remember, however, that miscommunication is all too easy to achieve. In the words of George Bernard Shaw, "The greatest problem of communication is the illusion that it has been accomplished." The marketing-communication process is shown in Figure 4.

It is possible to create a kind of decision tree for action, like the one shown in Figure 5. The tools, of course, would have to be adapted to suit the circumstances of a particular company. The communication task is easily summed up — it is to encourage a prospective client who may not be aware of your existence to enter into a transaction with you. The message he wants to hear is how such action will benefit him; marketers must remember that clients buy benefits, not features.

Figure 4 The marketing communication process

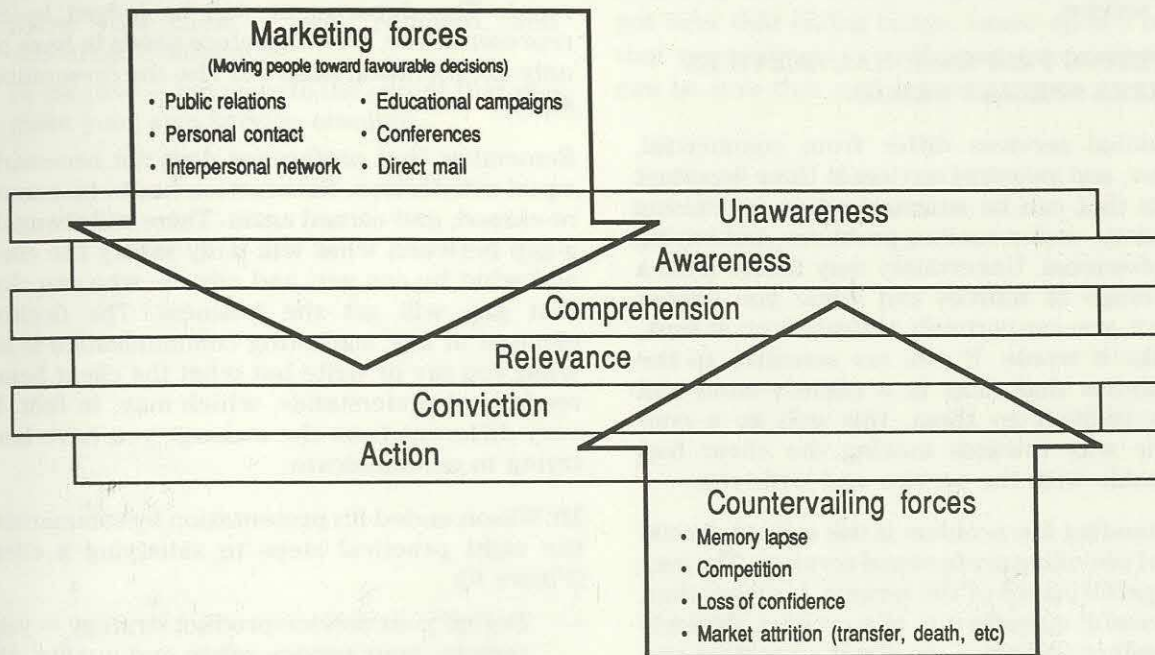
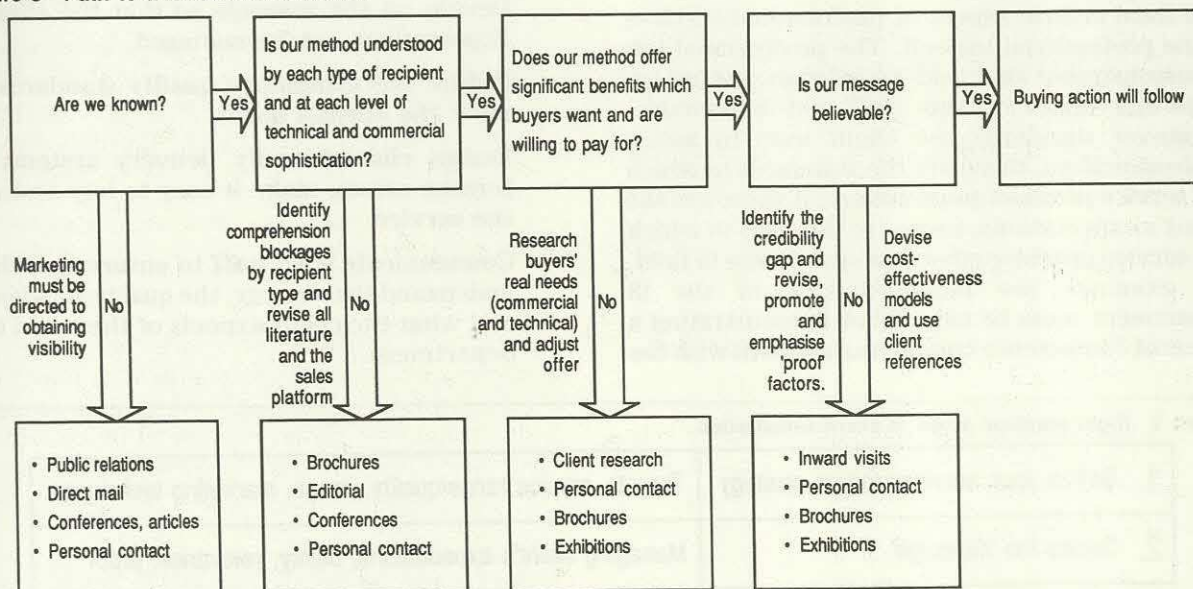


Figure 5 Path to a favourable decision



The features of the services that a company offers therefore need to be converted into benefits, bearing in mind the totality of a client's needs, technical and nontechnical. The features, are not, however, unimportant because the only way you can give some kind of proof of an intangible service is by the features, which indicate to the clients that they will get the benefits. The questions that must be asked are "what are you selling and what is the client buying?" and these may be two quite different things. For example, you may be selling an ability to collect data; what

the client is buying is the solution to a problem. You may be selling public-relations expertise; what the client is buying is shareholder confidence.

It is important to understand what benefits a client wants but, also, to remember that wants and needs are not necessarily the same thing. The client needs a favourable result but he does not want to pay for what he regards as a mechanistic solution to his problem. He wants effort and his willingness to pay fees is determined as much by his opinion of your efforts as by his opinion of the

results. In addition, he wants other things that go far beyond the technical competence and quality of the service.

MARKETING PROFESSIONAL SERVICES REQUIRES SPECIAL SKILLS

Professional services differ from commercial, consumer, and industrial services in three important respects that can be summarised as minimising uncertainty, understanding problems, and buying the professional. Uncertainty may derive from a whole range of sources and while you cannot remove it, you can certainly mitigate it or, at least, not make it worse. If you are sensitive to the uncertainties that exist in a client's mind and address yourself to them, this will go a considerable way towards making the client feel comfortable with the service and with you.

Understanding the problem is the second crucial aspect of providing professional services. The successful performance of the service, far more than the successful manufacture of a product, depends on an understanding of the client's business and an agreement about what the nature of the problem is.

The third critical aspect of professional services is the professional himself. The professional has a demonstrable skill and knowledge and recognises the limits of this skill and knowledge. Whatever standards the client uses to assess professionalism, those are the standards to which the service provider must adhere; if these are the client's expectations, these are the ones to which the service provider must conform. In the IS field, for example, the representative of the IS department must be capable of demonstrating a personal competence commensurate both with the

competence of those within the department and those for whom he is representing the department. The department will be judged by the representative, who therefore needs to have not only the technical skills but also the presentation skills.

Remember that preference does not necessarily equal satisfaction. Satisfaction has to be earned, re-earned, and earned again. There will always be a gap between what will truly satisfy the client and what he can get, and anyone who can close that gap will get the business. The decisive element in any marketing communication is not what you say or write but what the client hears, reads, and understands, which may, in fact, be very different from the message you have been trying to communicate.

Mr Wilson ended his presentation by summarising the eight practical steps to satisfying a client (Figure 6):

- Define your service/product strategy — your targets, your service range and quality, the image you want to project, and the marketing techniques you are going to use.
- Decide on the message so that the client's expectations can be managed.
- Define the mandatory quality standards to meet the client's needs.
- Design client-friendly delivery systems — foresee errors, make it easy to buy and use the service.
- Communicate with staff to ensure that they understand the strategy, the quality standards, and what the client expects of them and the department.

Figure 6 Eight practical steps to client satisfaction

1. Define your service/product strategy	Targets, service range/quality, image, marketing techniques
2. Decide the 'message'	Managing client's expectations, clarity, relevance, proof
3. Define mandatory quality standards	Meeting the client's needs and anticipations
4. Design client-friendly delivery systems	Foresee errors, make it easy to buy and use the service
5. Communicate with staff	Be sure they understand the strategy, quality standards and what clients expect of them and the department
6. Zero defect	Devise a system for error detection, analysis and correction
7. Know the client	Ask, research, encourage comments
8. Be creative	Innovate, make your own service obsolete

- Devise a system for error detection, analysis, and correction.
- Know your client — ask, research, and encourage comments.
- Be creative — innovate to the extent that you make your own service obsolete.

People are not interested in how much you know until they know how much you care. You need to put over that caring image, based upon a reality that you really do care. If you fail to market, you can be sure that nothing will happen.

Introducing the Profit Motive to a Group Services Department

Terry Forrester, BP International

Terry Forrester is responsible for marketing the services of I.S.S. (the information systems department of BP International) to the subsidiary companies in the group. BP is one of the world's largest industrial companies, with a turnover of some \$40 billion and 127,000 staff worldwide. It has been radically restructured during the last four years and this has led to the introduction of a profit-motive orientation for I.S.S., which consists of some 600 staff.

THE PROFIT MOTIVE

In 1985, the survival of group-wide services, including I.S.S., was in doubt. As these services had previously enjoyed a 'comfortable', centrally funded existence, the restructuring of the group into business streams led to a questioning of the role and position of I.S.S. in the organisation.

I.S.S. now attributes its survival and subsequent growth to the fact that it deliberately adopted a market-related approach. The emphasis moved from technology to customer service, and at the same time, market-related pricing was introduced. These changes were not painless. Many I.S.S. staff did not readily adapt, and some 10 per cent of them were replaced. I.S.S.'s clients were faced with increased charges, which have been accepted as the price for a more relevant service in an environment where management now has a real choice between using I.S.S. or external suppliers. While I.S.S. also competes with local IS functions within group companies, Mr Forrester believes that the relationship between I.S.S. and these teams is generally one of cooperation.

I.S.S. MISSION

Initially, a great deal of management time was invested in defining the mission for I.S.S. and gaining the support and commitment of corporate management. Progress would have been difficult without this commitment. The mission of I.S.S. can be summarised as:

- To position I.S.S. as the top IT supplier to the group.

- To add value to the group by helping BP clients to exploit IT to the full.
- To achieve a profit of 4 per cent of turnover.

There has been a great deal of debate about the level of profit that I.S.S. should achieve. Four per cent is seen as an acceptable compromise between profiteering and charging a market-related price. The main objective, however, remains that of enhancing business performance.

CLIENT RELATIONSHIPS

Promotion of I.S.S. and its services is seen as crucial to the development of I.S.S. As illustrated in Figure 1, the main client interface is a team of account managers whose relationship with the client management is one of a partnership. Within this partnership, the account managers seek to develop business opportunities for I.S.S. in order to satisfy carefully controlled business-development targets.

Each of the services being provided is controlled by an accountable manager, who is also looking

SENSIBILISER UNE DIRECTION FONCTIONNELLE A LA NOTION DE PROFIT

En 1985, la survie de la Direction Informatique du Groupe de BP International était compromise. Ayant précédemment bénéficié d'une "rente de situation", son rôle et sa position dans l'organisation étaient remis en question. M. Forrester attribue la survie de son équipe au fait qu'une approche délibérément commerciale a su être prise en oubliant un peu la technologie pour s'intéresser aux notions jusque là étrangères de niveau de service et de prix.

Un tel changement ne se fait pas sans douleur. M. Forrester explique les mesures prises, qu'elles soient opérationnelles, de formation et de sensibilisation de son personnel ou de marketing proprement dit. Il analyse ensuite les facteurs critiques de succès et conclut en présentant les bénéfices que son groupe a su tirer de cette expérience.

Figure 1 Promoting central services in a profit-motivated organisation



for growth opportunities. This combination of account management and service management provides an environment within I.S.S. that is highly focused, highly proactive, and highly motivated.

A further dimension of the client relationship is that provided by the I.S.S. marketing team. The responsibilities of this team include:

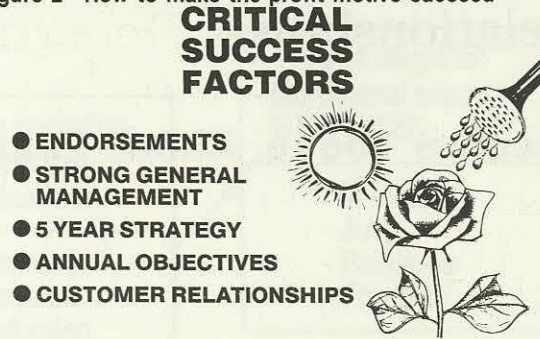
- Image: producing brochures, letters, and so forth.
- Promotion: setting up seminars and preparing mailshots.
- Infrastructure: monitoring developments by competitors.
- Service interface: identifying services that are or will become crucial to BP International and that will provide growth opportunities for I.S.S.

All I.S.S. staff have a role to play in enhancing client relationships, although the situation where "everybody sells" is avoided. However, I.S.S. trains its staff in selling, interpersonal skills, and business, in order to complement the market focus now paramount in management roles.

CRITICAL SUCCESS FACTORS IN INTRODUCING THE PROFIT MOTIVE

I.S.S. considers that the profit-motive orientation has been successful. Not only has I.S.S. survived, which in itself looked unlikely in 1985, but it has prospered and is now seeking to expand what is still a relatively small client base within the BP group. This success is attributed to the critical factors shown in Figure 2 and described next.

Figure 2 How to make the profit motive succeed



First and foremost is the endorsement by corporate management of the profit philosophy. Without this, missions become vague, client relationships weak, and staff motivation suffers. Second, in introducing the profit motive, a great deal of change is inevitable, and therefore strong management is essential. Management must have the resolve to see through the necessary changes. Third, there is a need for a clear strategy for the next three to five years. The strategy should define markets, financial objectives, and the services to be provided. Within the framework of the strategy, annual objectives are defined in such a way that they can be both assigned and used for monitoring performance. Last, and by no means least, is the emphasis on customer relationships, which I.S.S. has addressed through staff-training and account-management policies, described above.

BENEFITS OF INTRODUCING THE PROFIT MOTIVE

I.S.S. is now a highly respected operation within BP International and, in 1988, is likely to grow by some 15 per cent. The emphasis in recruiting staff is now on interpersonal skills, with the necessary technical skill being added later. This policy has created a highly motivated team of market-oriented people who are viewed as potential senior managers for the BP group. By aiming high in terms of quality, I.S.S. is able to compete effectively with leading external suppliers, thereby enhancing further client relationships and I.S.S.'s own ability to meet future growth objectives. The transition to profit orientation has been long and costly, but appears to have benefited both I.S.S. and BP International. The feeling is that business solutions are now being provided at the right price by a highly motivated and highly focused service organisation.

Organisation — The Key to Customer Relationships

Jacques Toqué, Rhône-Poulenc

Rhône-Poulenc is the leading French chemical and pharmaceutical group. M. Toqué, Directeur Général, Rhône-Poulenc Informatique, described how information services are organised within the company. He said that he did not like the word 'marketing', which was rarely used within the company, but that the close involvement of users in the management of information systems was, in effect, marketing.

COMPANY BACKGROUND

Rhône-Poulenc is represented in 140 countries. It has 83,000 employees, 40,000 outside France. In 1987, the company profit was FFfr2,360 billion on a revenue of FFfr56,160 billion, 72 per cent of which was outside France. There are three complementary business sectors: life sciences; new materials and chemical specialities; and major organic and inorganic intermediates.

The group is run by a six-man executive committee, with each member responsible for one operational sector and two or three functional divisions. Thus, the information systems division reports directly to the executive committee.

THE INFORMATION SYSTEMS STRATEGY

The systems division has 1,200 employees (two-thirds in France) and a budget of FFfr900 million, which is growing by 10 per cent per annum in real terms. It operates three mainframes, 20 or so medium-sized computers, and many System/38 computers. There are 10,000 workstations installed worldwide, of which 4,200 are PCs. The strategic requirements facing the systems department are:

- To invest in operational support and strategic applications.
- To manage decentralisation tightly.
- To set worldwide policies.
- To educate as many employees as possible.
- To improve the management of the systems function.

Today, the major administrative systems have all been developed. Rhône-Poulenc will not be developing many more multisector, multisite applications. The focus is now on operational support systems — helping people to produce products and sell them more effectively — and on strategic business applications directly affecting business relationships and products (see Figure 1). The aim is to generate added value for the group through the use of IT. This is possible only if all users, both actual and potential, are involved.

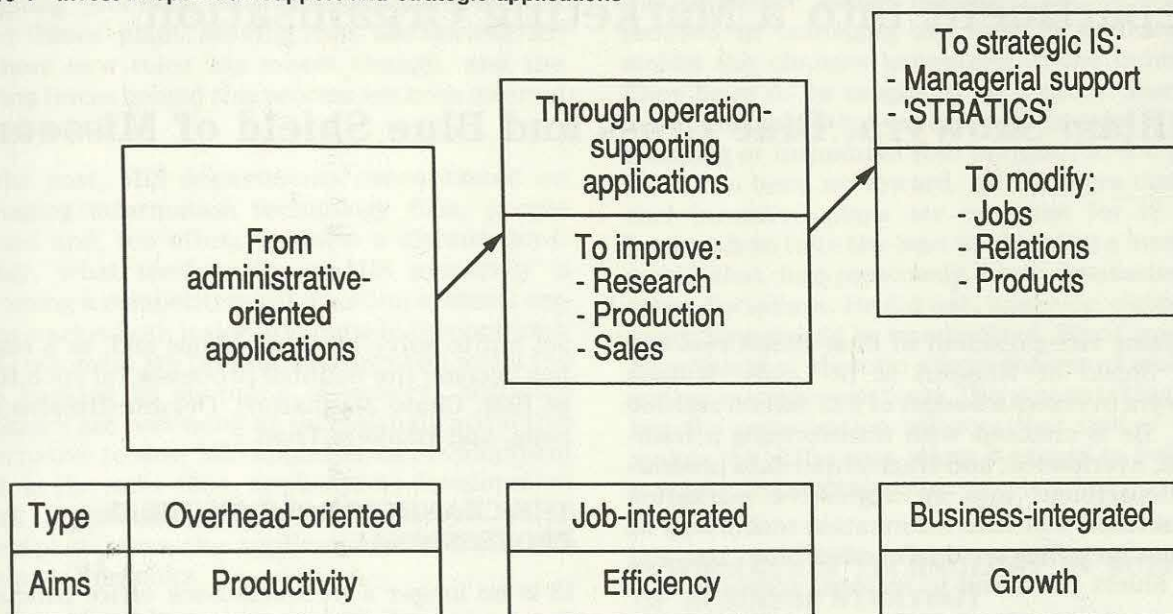
The first task was to raise management awareness — to ensure they understood that IT can create added value. Communications with users have been improved and managers now accept the need for user experts to take responsibility for systems projects. As workstations and applications are distributed through the group, and as users

LA CLEF DE BONNES RELATIONS AVEC SES CLIENTS: L'ORGANISATION

Après une brève présentation du groupe Rhône-Poulenc, M. Toqué décrit les orientations générales informatiques: il s'agit d'une politique offensive, consistant à investir sur les informatiques stratégiques et opérationnelles, dans le cadre d'une décentralisation harmonisée. La taille du groupe Rhône-Poulenc le met en demeure de jouer la mondialisation, avec ses aspects normatifs, et de former le plus grand nombre possible de personnes.

En ce qui concerne plus particulièrement l'aspect "promotion" de l'informatique, M. Toqué la lie à l'évolution de la fonction de l'informatique centrale: cette évolution, due à la complexification du champ de vision, demande à définir des règles de jeu nouvelles, nettes mais d'application souple, demande également de fournir les compétences nécessaires aux utilisateurs finals, et d'assurer le rôle de transfert dans la vie des produits. L'implication de la direction générale est une nécessité absolue, tant au niveau stratégique qu'au niveau opérationnel. M. Toqué conclut en rappelant l'importance de l'humain et de sa formation.

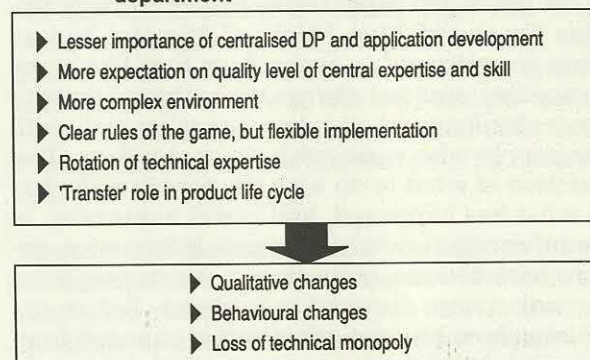
Figure 1 Invest in operation support and strategic applications



become more directly involved in systems projects, the role of the corporate systems department is changing (see Figure 2). Systems people have to communicate better, and have a greater understanding of the company's business. Only in this way can they raise management awareness so that the company can use IT to create added value. This change in the systems specialist's way of thinking and communicating is now taking place at Rhône-Poulenc. It is supported by a greater commitment from top management both at the strategic level and at the operational level.

There is now a corporate budget for investment in systems infrastructure projects, and in projects that cannot be profitable in the short term. The budgeting procedures are backed by methodologies that allow better decisions to be made about investment in applications development. Priority is given to developments that are clearly aimed

Figure 2 Changes in the role of the corporate IS department



both at operational-support applications for research, production, sales, and so on, and at the first 'strategic' applications. These are all being actively marketed throughout the group.

Changing a Traditional Data Processing Department into a Marketing Organisation

William Skowyra, Blue Cross and Blue Shield of Missouri

As senior vice-president of IS at Blue Cross and Blue Shield of Missouri in St Louis, William Skowyra oversees a budget of \$22 million and 300 staff. He is credited with transforming a traditional, overloaded, and fragmented data processing department into an aggressive marketing organisation that uses information technology as a means for selling services to other Blue Cross and Blue Shield plans and to national accounts.

Every business and every industry finds itself increasingly in the information business today. Businesses could not operate if they had to go back to the pencil and paper technology of 20 years ago. Blue Cross and Blue Shield of Missouri had an early commitment to technology but, like many companies, was not always sure what to do with the technology and even less sure what to do with the people who came with the technology. This question of what to do with the people is the key to what has happened, and is still happening, in the information systems business. Information systems have become, quite simply, the starting point for major steps forward in business. Before explaining how his own organisation changed from a traditional data processing organisation to a marketing organisation, Mr Skowyra provided a little background on what his organisation does.

THE ROLE OF BLUE CROSS

Blue Cross and Blue Shield is an association of 77 plans in the United States and has recently moved onto the international scene in Europe, the Orient, and the Caribbean. The system generates \$44.5 billion per year in premium dues income in the private sector and the equivalent of \$68.9 billion per year in the public sector. The system has 124,000 employees, servicing 80 million subscribers and processing millions of claims per year. This represents a market share of around 30 per cent. Blue Cross and Blue Shield of Missouri is the eleventh largest of the 77 plans.

Mr Skowyra drew attention to the problems that can arise when an association of 77 plans has to deal with one large company, nationally or internationally. Blue Cross and Blue Shield in Missouri

set out to solve these problems and, as a result, has become the national processor for such firms as IBM, Chase Manhattan, Deloitte Haskins and Sells, and Bankers Trust.

THE CHANGING ROLE OF THE IS PROFESSIONAL

IS is no longer a technical back office function. The new IS organisation and the professionals within that organisation are entrepreneurial and profit-oriented, and have a global business perspective.

Projects that Blue Cross and Blue Shield of Missouri has undertaken in the last four or five years are not necessarily aligned with the functional organisation but more with the global business perspective of the whole organisation. IS

TRANSFORMER UN DEPARTEMENT INFORMATIQUE TRADITIONNEL EN UNE SOCIETE DE MARKETING

M. Skowyra présente en première partie l'activité de l'organisation d'assurances médicales Blue Cross et l'importance que revêt la fonction des systèmes d'information au sein de cet organisme. En effet, l'informatique de Blue Cross est tout à la fois un support opérationnel, un outil de marketing et de vente et une aide stratégique pour l'entreprise.

Les changements qu'il a dû introduire dans son département ont été d'abord d'apprendre aux informaticiens de construire des systèmes "qui rapportent" plutôt que de construire des systèmes techniquement parfaits. Ensuite, il a fallu leur apprendre à devenir des décideurs et à savoir prendre des initiatives pour contrôler l'évolution d'un monde professionnel en mutation, monde professionnel qui était précédemment contrôlé par d'autres fonctions de l'entreprise.

M. Skowyra explique ensuite quels procédures ou moyens ont été mis en place pour obtenir la stimulation nécessaire.

Changing a Traditional Data Processing Department into a Marketing Organisation

professionals are running corporate projects, designing products, and marketing services to other 'Blues' plans. Moving from the back office to these new roles has meant change, and the driving forces behind this process are both internal and external.

In the past, MIS departments concentrated on managing information technology first, people second and, too often, business a distant third. Today, what used to be an MIS monopoly is becoming a competitive information systems services market both inside and outside corporations, and customers are finding that they can avoid the MIS backlog by shopping elsewhere. Software packages are becoming an increasingly attractive alternative to slow MIS applications development and, at the same time, applications development work is gradually being decentralised in an attempt to move the applications skills out into business line units.

To respond to these forces, Mr Skowyra claimed, you must, internally, identify your real client and become market-driven. The 'Blue' system in the United States had an advantage until five or six years ago; it was not a profit-oriented operation. As competition increased, the organisation could no longer, however, be simply an order-taker; it had to become a marketing organisation. For most companies, there are also external factors driving change which, for one reason or another, create crises. Blue Cross likes to look at these crises as opportunities.

If you are fortunate enough to see that you must change and you get the opportunity to manage the change, problems will inevitably arise. Unfortunately, while real changes are happening to MIS departments, many do not come from within. Talented end users are beginning to change MIS outlooks and roles. Frequently, it is the talented end user who catches the eye of senior management. The skilled amateur is beginning to threaten the whole technological mystique. In addition to the growing role of end users in IS functions, IS staff themselves are pushing IS management to change the way they do things. In fact, they are seeking career paths outside IS.

THE NEW MANAGEMENT ORIENTATION OF THE IS LEADER

Managing change in a market-driven organisation is a question of balance. End-user needs must be balanced against account needs. Providers must be balanced against customers. Income generation has to be balanced against cost savings, local business against national business, and technical purity against business sense — teaching IS professionals to build a system that will work and

generate revenue or save costs, rather than one that is perfect. Middle managers are the biggest problem in managing the new IS professional amidst the changes happening in the industry. They have to be taught to be leaders. Much of middle management is reluctant to take a commanding or influential role because, in the past, there has been no reward. Mr Skowyra claimed that incentive plans are essential for IS professionals to take the lead in changing a business world that has previously been dominated by other disciplines. He did not, however, claim that everything should be standardised. Blue Cross and Blue Shield of Missouri allows the use of multiple project management tools. This means taking risks but the organisation believes that that is what makes the difference when it comes to building a marketing organisation.

INFORMATION TECHNOLOGY IN SUPPORT OF BUSINESS STRATEGY

The basis of a successful strategy is learning to say yes instead of no. When people at Blue Cross and Blue Shield of Missouri want to put new products out and deliver new accounts, they can often move more quickly and more effectively than other functional organisations within the division because of the nature of the staff and the nature of the business that the organisation does in IS. Usually, saying yes does not hurt you, Mr Skowyra claimed.

To get out of the back office, you need to accept a challenge, look for something new and shed the scapegoat rule. Insist that you are a business function and concentrate on your people. IS people are too new in organisational terms or as a discipline to be tied up with tradition. They need to have the flexibility to make their 'deals' with other divisions. Sitting back and playing it safe will, more often than not, result in inaction. The impetus for this move from the back office can come from within IS; there is no need to wait for the Chief Executive Officer to ordain IS integration into the corporation.

Blue Cross and Blue Shield of Missouri succeeded because it insisted that IS was a business function like any other. Mr Skowyra reported that, to turn the division around, he started by sending four directors and their functional managers to seminars on the health-care industry. They were encouraged to find customers and sell Blue Cross and Blue Shield. IS Directors spend as much as 40 per cent of their time marketing Blue Cross and Blue Shield products and services. The evidence of success is twofold. At a time when Blue Cross and Blue Shield is cutting staff, the IS organisation is growing and will continue to grow. Further, one

Changing a Traditional Data Processing Department into a Marketing Organisation

of the IS directors will soon be adding a group of professional marketing, claims-processing, and customer-service people to his unit. In fact, IS is assuming many of the roles traditionally undertaken by the marketing department. This blurring of organisational functions testifies to the changes beginning to happen in other IS departments.

Competitive pressures and the continuing shift towards a service economy will further test the IS professional. Increasingly, even people trained in technical disciplines will have to feel comfortable in a marketing role. As technology continues to be dispersed throughout the organisation, the technical mystique will inevitably be dispelled. Customers and markets will drive IS priorities.

As the boundaries between IS and business are redrawn and IS people move into new, non-technical careers, they will have some clear advantages. By and large, they have a ready

ability to absorb new ideas and, because of their technical aptitude, they often learn business practices more readily than business people learn technical disciplines.

Those who remain in IS will be able to add substantial business skills to their resumé. Some will become highly specialised technical experts; few will stay in a single speciality for the duration of a career. Adaptability, the capacity for directing one's own career, and solid business skills will be the hallmarks of the IS professional in the year 2000.

Every business is learning that success depends on a rebirth of the entrepreneurial instinct. IS executives are being thrust into the entrepreneurial role because they are not bound by traditional thinking, because they have not had time to build long-standing traditions and because they have recognised that systems are the tools of their trade, not their business.

The Changes Needed in the Systems Department

Andrew Boynton, University of Virginia

Dr Andrew C Boynton is Assistant Professor of Business Administration at the Darden Graduate School of Business Administration, University of Virginia. His interests include the diffusion of technology within organisations, organisation theory, and information systems management policy and strategic planning. Prior to embarking on his academic career, Professor Boynton was a project manager and consultant in the information services and financial services industries.

THE GROWING ROLE OF LINE MANAGERS

The consumers of IT services in a company — the line managers — have increasing discretionary power in acquiring and using these services. A recent study of 25 companies showed a two-fold increase in this power over the last three years and a 30 per cent decrease in the power of the internal IT unit over the utilisation of IT resources. As a direct consequence, therefore, marketing has become a central concern of internal IT functions in their efforts to support what Dr Boynton called the 'information economy' — where technology is being diffused down to the level of the business units.

Figure 1 illustrates the trend towards increased responsibility by line managers, which is becoming evident in 'leading edge' companies in the late 1980s. The arrows represent flows of information, products, and services.

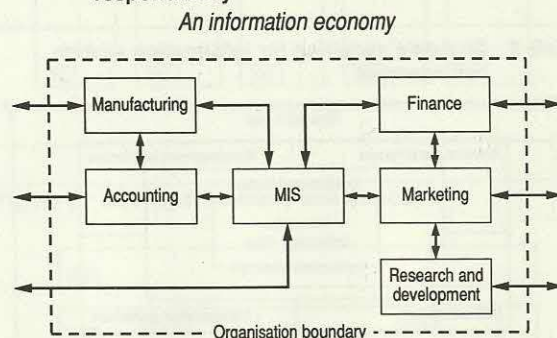
FEATURES OF A WELL-MANAGED INFORMATION ECONOMY

In companies that manage their information economy well, certain characteristics emerge:

- *Market forces* exist to ensure that individuals and business units throughout the enterprise will be able to have their information needs met in an effective and efficient manner.
- *Incentives* exist that induce individuals and business units throughout the enterprise to seek and deploy new information technologies in innovative, yet appropriate, ways.

- A common understanding exists among management and professional staff regarding the full potential of the current and future role of information technologies within the enterprise.

Figure 1 Trends towards increased line manager responsibility



LES CHANGEMENTS A APPORTER AU DEPARTEMENT INFORMATIQUE

Une enquête récente aux Etats-Unis a montré que dans la plupart des sociétés les directions opérationnelles avaient un pouvoir de plus en plus déterminant (deux fois plus en 3 ans) dans les choix informatiques de toute nature. Ceci explique la nécessité pour la fonction informatique de savoir mettre en place sa propre promotion. Le paradoxe est donc qu'au moment où l'informatique prend une place de plus en plus stratégique dans la destinée de l'entreprise, les professionnels qui la gèrent voient diminuer leur pouvoir et leur influence.

Le professeur Boynton présente ensuite les sept variables stratégiques qui, selon lui, peuvent faciliter (ou gêner) le rôle de la fonction informatique dans notre économie "informationnelle". Il cite ensuite des exemples de procédures et d'organisation adaptées à différentes structures d'entreprises.

Il conclut en rappelant les principes essentiels d'un département informatique efficace: faire une bonne analyse de la situation, établir un bon partenariat et bien gérer l'infrastructure humaine et financière.

The Changes Needed in the Systems Department

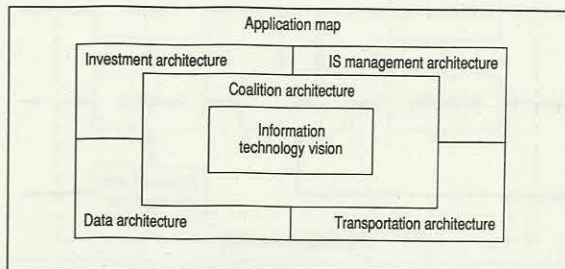
- There are no *technological barriers* (for example, insufficient processing resources, reliability, or security concerns, staffing limitations, data availability) preventing the appropriate use of information technologies.

As a consequence, the paradox facing IT management is that while it is *responsible* for leading the successful use of IT resources, it faces decreased *power* and *influence* over IT-related decisions and this will guide the way in which the function will be managed in the future.

THE ROLE OF STRATEGIC VARIABLES

The management of information systems is based on seven strategic variables (Figure 2) that can facilitate or hinder the success of management in the information economy:

Figure 2 Strategic variables for information system management



- *Information-processing technology vision* — Identifies the future role of information-processing technology within the enterprise, thereby shaping the decisions taken by managers of an enterprise's various information businesses.
- *Coalition architecture* — Provides a forum by which an enterprise's influential managers and professional staff address critical issues concerning the use of information technologies.
- *Data architecture* — Ensures the free exchange and guarantees the integrity of the data owned by the various information businesses within the enterprise's information economy.
- *Transportation architecture* — Maintains sufficient information-processing, data-storage, and communications capacities to meet today's and tomorrow's enterprise-wide information-processing activities.
- *IS management-process architecture* — Defines a complete set of generic management activities that must occur for the potential of information technology to be realised.

- *Investment architecture* — Establishes market mechanisms that facilitate enterprise-wide information technology decisions that are consistent with the information technology vision.
- *Application map* — Creates an awareness of available application systems, information services, and data repositories throughout the information economy.

THE DISPERSION OF IT

The dispersion of information technology throughout the organisation is being driven by pressure in four areas:

- The pressure to produce a price/performance ratio.
- The need for enhanced reliability/remote operations.
- Greater managerial awareness.
- The need to clear backlogs.
- Growing responsibilities of line managers.

The first two represent *technology push*; the other three represent *technology pull*. By contrast, the *management* of information technology may or may not be dispersed throughout the organisation.

There are three major benefits of dispersed IT. First, an improved strategic focus for IT resources and services is created. Second, the management of change is enhanced, particularly as line managers become involved. Third, an appreciation of the benefits to be gained from the effective use of IT is spread more widely throughout the organisation. While the role of IT will have changed drastically by the mid-1990s, the process will be slow and difficult, and will represent a major challenge. The primary question is *how* to manage this inevitable dispersion of responsibility. One of the seven strategic variables referred to earlier — the definition of an IS management-process architecture — is critical.

DEFINING A PROCESS ARCHITECTURE

Five critical activities must be performed to achieve effective Information Technology Management (ITM) and a key decision is to determine whether the IT function or line management should be responsible for these:

- *Strategic direction*. Facilitating broad planning efforts regarding the strategic role that IT can have in the organisation. Ensuring that business-unit managers, corporate managers, and professional IT staff together identify the strategic uses of IT for the entire organisation.

The Changes Needed in the Systems Department

- *Infrastructure systems.* Establishing and communicating software and hardware standards, and planning, building, and running telecommunications highways with data-access and delivery capabilities, including database management. Coordinating the development of projects where applications will be shared.
- *Technology scanning.* Identifying, testing, and experimenting with R&D for the entire organisation.
- *Technology transfer.* IT-related education and specialised consulting, together with the provision of access to expensive, general-purpose IT (graphics, telecommunications infrastructure, and so forth). Establishing and maintaining vendor relationships (service contracts, volume discount, and the like).
- *Business systems.* Planning for, building, and running specific application systems.

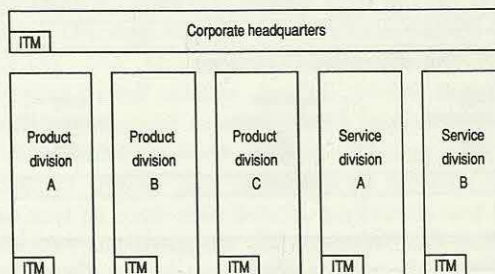
DEFINING THE BREADTH OF THE ITM PLATFORM

Dr Boynton described the model that he had developed in conjunction with IBM. The model includes 'enterprise drivers', which are the key issues that affect the various decisions related to ITM. Figures 3, 4, and 5 represent such models for a functional business unit, a divisional structure, and a strategic business unit. It is useful to develop the model both for the current situation and in the strategic timeframe.

One of the critical considerations in devising an effective management system is the breadth of the ITM platform. Figure 6 (overleaf) shows how the four 'drivers' — telecommunications, shared data, common applications, and human resources —

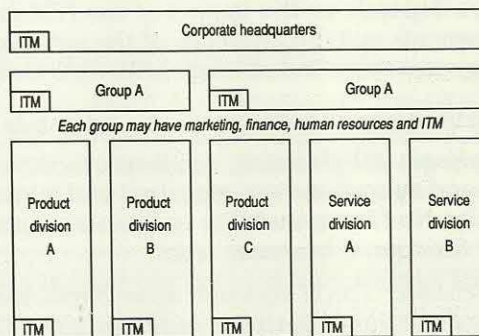
affect the breadth of the platform. If the requirements are limited, the ITM platform tends to be narrow, indicating a decentralised ITM strategy. Even when it is very narrow, the ITM platform should embrace ITM policies, standards and architectures (Figure 7 overleaf). If requirements are high for telecommunications, shared data, common applications, and human resources, the ITM platform is wide, indicating a centralised

Figure 4 Divisional structure



Each division may have marketing, finance, manufacturing, distribution, human resources and ITM

Figure 5 Strategic business unit structure



Each division may have marketing, finance, manufacturing, distribution, human resources and ITM

Figure 3 Functional business unit structure

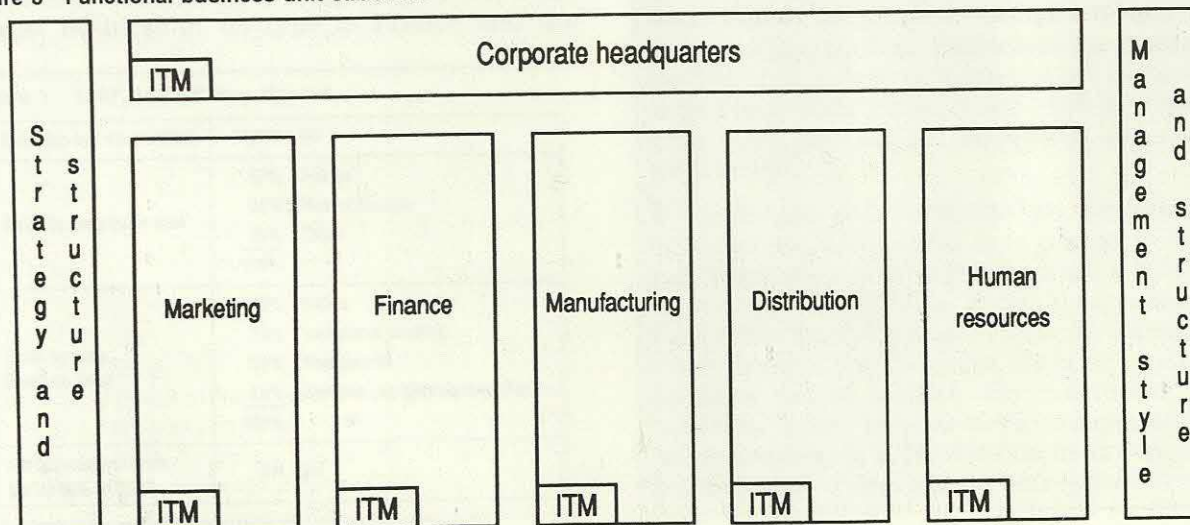


Figure 6 Breadth of the ITM platform

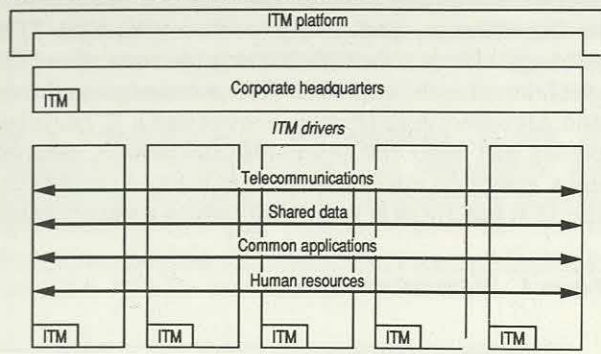
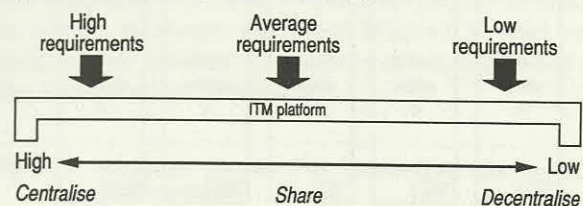


Figure 7 The enterprise IT strategy



ITM strategy. In practice, the result is an ITM structure with both centralised and decentralised functions. Which direction the ITM structure favours depends on the impact of the ITM-driver requirements and the influence of the enterprise's strategy/structure and management style/culture.

Dr Boynton gave examples of the extremes.

Centralised: All planning, applications development, and operations are organised and managed centrally. No IT responsibility or function is placed in the functional business units.

Decentralised: The IT function is the responsibility of line/functional business management. Each

functional business unit plans, builds, and runs its own applications portfolio, optimised to its unique strategies.

Shared: Some of the variations include:

- All user applications development staff report to business functional management. Corporate IT develops core applications and common applications.
- Mainframes and minicomputers are located at the functional business site but are remotely operated and technically supported by a corporate IT group.
- Corporate IT runs as a utility (just providing processing power), but functional business management makes all applications/data decisions.
- The telecommunications utility is planned, built, and run by corporate IT, but with local support possibly provided by functional business management.
- Corporate IT plans and builds corporate subject databases; business functional management plans and builds divisional and departmental subject databases.

In summary, Dr Boynton stated that successful implementation of an effective ITM architecture depends on appropriate model analysis, partnerships, financial infrastructure, and human-resource management, together with other factors that are unique to one's own organisation. In this type of environment, marketing is essential because line management is taking more responsibility and so the changing role of the IS function has to be driven actively.

Establishing the Systems Department as a Separate Company

Michel Logereau, TELCOM

Michel Logereau is general manager of TELCOM, a subsidiary of the French ACCOR group. TELCOM was formed from the in-house systems function in the group and now offers its services to organisations outside the group as well.

THE ACCOR GROUP

Mr Logereau began by explaining how the fragmented and diverse nature of the ACCOR group's business led to the decision to transform the internal data processing department into a separate subsidiary company, trading in its own right, and selling its services to other organisations. ACCOR was formed by the merger of the Novotel hotel chain and Jaques Borel International. The latter was a highly organised and disciplined organisation with a centralised systems function, which formed the basis of the data processing department in ACCOR. Novotel was a much more decentralised organisation which set the pattern for the group as a whole.

The group now has some 2,000 separate business entities each trading in its own right. Total turnover in 1987 was about FF15 million (see Figure 1), generated from four main business areas: hotels, institutional catering, restaurants, and associated services (such as luncheon vouchers). With 56,000 employees, ACCOR is the largest business of its type in France and the

eighth largest in the world. The group is better known through its various business names than as ACCOR. For example, it owns the Sofitel and Novotel hotel chains, and L'Arche and Courte Paille restaurant chains. Each business is aimed at different customer groups, offering a very wide range of prices and qualities of service — from one-star to four-star hotels, and from fast food to gourmet restaurants. All operate independently with a minimum of central control and services from ACCOR. There is central financing, however, and some corporate support for financial incentives, career development, and transfer of staff.

DATA PROCESSING IN ACCOR

The centralised data processing department in ACCOR is based mainly on Bull equipment, including a DPS8 mainframe (currently being upgraded to a DPS 8000) used for administrative systems.

LA FILIALISATION ET SES IMPACTS

Après une brève présentation du groupe ACCOR, ainsi que celle de TELCOM, société de services informatiques qu'il dirige, et de ses activités, M. Logereau décrit les orientations générales informatiques et la culture fortement décentralisée du groupe ACCOR. Il explique ensuite la filialisation de l'informatique justifiée par l'évolution de l'environnement à la fois du métier de la restauration et des outils informatiques ainsi que par la maturation des comportements.

M. Logereau décrit ensuite les procédures économiques liant sa SSII et le groupe ACCOR puis l'incidence de cette filialisation sur le fonctionnement de TELCOM. Enfin, il en présente l'approche marketing tant en terme d'analyse des besoins du marché qu'en choix de produits proposés par sa société. En conclusion, M. Logereau dresse le bilan des avantages et des inconvénients de la filialisation de la fonction informatique d'une grande entreprise.

Figure 1 1987 ACCOR key figures

Sales (up by 14% on 1986)	14,618 MF
Sales by geographic area	57% France
	24% Rest of Europe
	19% Other
	100%
Sales by main business areas	49% Hotels
	23% Institutional catering
	18% Restaurants
	10% Services (eg luncheon vouchers)
	100%
Net consolidated profit (up by 44% on 1986)	334 MF

Establishing the Systems Department as a Separate Company

The department also runs a hotel reservation system based on Unisys equipment and a videotex information system that can be accessed via Minitel terminals. The latter system is especially appropriate for ACCOR's kind of business. There are some 200 screens and 1,000 Minitel terminals in ACCOR that can access the systems, which are linked into the SITA airline network and into Transpac.

THE REASONS FOR MAKING DATA PROCESSING INTO A SUBSIDIARY COMPANY

The decision to transform the data processing department into a separate subsidiary company followed from the evolution of the business and technical environment, and the resulting problems that faced the department.

First, the market served by the department became increasingly fragmented. For example, instead of having to serve just one institutional catering concern, there are now four business areas, each with its own, largely autonomous management. Second, the different businesses are also increasingly dispersed geographically. Third, because the different businesses within any one area, such as hotels, are targeted at different markets, their systems needs tend to be different. The differences in systems needs are further complicated by the lack of a common business-planning system or philosophy. Some managers have a formal business plan from which systems plans could be developed. Others work on a day-to-day basis, calling for ad hoc systems needs. Hence, there is little opportunity for sharing common systems between the different profit centres, even in the same business area.

Developments in technology were leading to even further fragmentation of systems. The advent of personal computers, departmental minicomputers, and high-level development languages had allowed the more sophisticated users to set up their own systems for certain applications. They were less prepared to wait for the data processing department and were looking for other applications beyond administrative systems.

As a result, users were competing with the data processing department to provide new systems or replace existing ones. In particular, the transfer of systems from the information centre to users would have led to costing problems. To recover the fixed costs of the information centre, prices to other users would have had to be increased. This would clearly not have been acceptable to those users. Instead, the data processing department chose the option of marketing its services to outside users to avoid having to increase its costs to internal users. This decision was in accord with

the general policy of encouraging data processing to be as independent as possible.

The decision to set up the data processing department as a minority-held subsidiary, TELCOM, was taken in 1985. The subsidiary began trading in the first half of 1988.

CONSEQUENCES OF CHANGE IN STATUS

There have been several consequences of the decision to set up TELCOM. They have affected the systems being implemented, the relationship with ACCOR, and the staff in TELCOM.

Implications for systems

Prior to the change, some applications were developed for the group as a whole. Now, these applications have to meet the needs of the individual businesses. There is a much greater need to tailor applications to suit each business — different report formats, for example. There has also been a need to expand the processing capacity (by 35 per cent in the last year) to cater for new clients and the growth in the videotex service. This has been achieved by optimising the existing hardware, but more hardware will be required soon if there are any new clients.

Implications for relationship with ACCOR

Before the change, the culture within the business was to avoid formal written contracts. The provision of systems was not subject to formal agreements. This has had to change because of the new status of TELCOM. Three-year contracts were negotiated to allow TELCOM to establish itself. The users were both somewhat surprised and concerned because of the possible changes to the service they would receive. TELCOM has had to explain that nothing would change.

TELCOM has a privileged relationship with ACCOR because of its knowledge of the people, organisation, and systems needs. No other central function had an overview of all the different business systems but TELCOM has had to establish steering groups for the systems in each business (vertical) rather than for each type of application, as it had to previously. To a certain extent, the different businesses are in competition with each other.

Implications for systems staff

TELCOM recognised that one of the most difficult problems to be faced in establishing itself was that of dealing with its own staff. The staff, several of them in quite senior positions in ACCOR, have had to leave a very large established company to work for a very small company with only about 100 staff. A lot of time was spent in 1986 and 1987 explaining the changes and preparing the staff for the move, including preserving the rights and

Establishing the Systems Department as a Separate Company

privileges of the people concerned. This task was extremely difficult but was managed without any serious damage.

The other problem was to change the attitude of the staff to a more commercial and market-oriented approach, because TELCOM is no longer a monopoly and has to earn a profit. Staff have absorbed the message, and their behaviour is beginning to change — for example, there is a greater commitment to the meeting of project schedules.

ADVANTAGES OF SETTING UP THE SUBSIDIARY

Several benefits have resulted from setting up TELCOM. First, ACCOR receives better and more cost-effective services because TELCOM now has to compete for the ACCOR business. There is a clearer responsibility for the relationship with ACCOR, and less ambiguity. TELCOM can be more flexible in meeting ACCOR's needs, and the services provided can be enhanced as more resources are now available. ACCOR managers can concentrate on their main business activities without being diverted to systems problems.

There are also benefits for the systems staff. The possibilities for career development within the new company should be more attractive than in the less-dynamic environment of the function as it existed within ACCOR.

THE MARKET FOR TELCOM

When considering whether to set up TELCOM, the first question to be answered was whether there was a market for its services. The answer was yes because the services sector was expanding in France, and companies were increasingly willing to seek their information systems outside their own organisation. There was also rapid growth in professional videotex services (up by 140 per cent in connection time between 1986 and 1987). Furthermore, although there is a bigger market for IBM-based systems, Bull is the fifth largest computer vendor in Europe and there is less competition from other information-service vendors than from those based on IBM equipment.

The marketing plan is, first, to build on the existing services for the ACCOR group and then to expand these services where possible. TELCOM also plans to provide remote back-up services and to exploit its knowledge of videotex services gained from the experience within ACCOR. Pricing of services has been based on the market rate rather than on costs. If the costs are higher than the market price, the services are not offered.

THE RISKS FOR TELCOM

TELCOM does face risks in becoming a separate company. In particular, it has no experience of selling or marketing to third parties. Although the ACCOR group is very large, TELCOM is only a small company and is not known in the marketplace. To reduce the risks, it looked for a complementary partner and selected Giciel, a new software company that also provides services to Bull users. Giciel's business activities (training, consultancy, and hardware sales) fit well with TELCOM's strengths in systems development and implementation, and in information centre management.

TELCOM expects to lose some of its existing ACCOR business over the next two years — perhaps up to 30 per cent. Assuming that this business is replaced by work from other organisations, TELCOM anticipates that its workload could be evenly split between ACCOR and other companies by 1991.

THE DIFFICULTIES EXPERIENCED

TELCOM has found that the process of setting itself up as a separate company took much longer than expected. This was due to the large number of separate contracts that have needed to be negotiated with the ACCOR businesses. Contracts had to be carefully worded to safeguard the users' interests, and, in some business units, several of the staff (sometimes even the presidents) wanted to be involved in the discussions. In addition, there was the need to allay the systems staff's fears and concerns, as explained above. The whole process took three years from the initial decision in 1985.

THE ADVANTAGES OF A SEPARATE COMPANY

The advantages for ACCOR of the data processing department becoming a subsidiary company include:

- Managers can focus their attention on their main business.
- Managers have more freedom in choosing the suppliers for their systems.
- Managers have more control and responsibility over their use of systems, and, hence, the profitability of the business units.
- Now that managers are responsible for their systems, they will learn to make better use of them.

Establishing the Systems Department as a Separate Company

TELCOM has also gained several advantages:

- It has more freedom to develop its own activities than it would have done as part of ACCOR.
- It has become more professional as a result of having to compete with the outside world.
- Its staff are responding to the challenge to establish the company as a commercial and profitable organisation. The initial three-year contracts with ACCOR will provide a 'safety net', but TELCOM knows that it must be in a position to retain the business on its own merits at the end of this initial period.

Charging for Information Services — Impact on Customer Relationships

Tony Brewer, Butler Cox

Mr Brewer is the Director of the Butler Cox Foundation in the UK. In addition to many years of high-level consultancy experience, he has worked as the systems manager and budget controller for a large engineering firm.

Charging users with the costs of systems services tends to be taken for granted as the natural and sensible thing to do. A majority of Foundation members already recharge their users, and most of those who do not yet recharge intend to do so. In the January-February 1987 edition of the *Harvard Business Review* — “Making information services pay its way” — Brandt Allen (a colleague of Andrew Boynton) advised readers to set up their systems departments as profit centres, charging their users a market price for their services. Mr Brewer did not accept this assumption but saw recharging as a marketing technique that may have a place in the management of systems services, if used in the right way and in the right circumstances.

OBJECTIVES OF RECHARGING

Many reasons have been given for recharging, but they fall into three categories:

- Linking all costs with the products or services that they support: Recharging is essentially good accounting practice and the linking of costs in this way is increasingly important as the use of IT becomes more and more critical to successful participation in the marketplace.
- Promoting the effective use of systems resources: Recharging involves users in information management, it makes them conscious of the costs of their services (and, it is to be hoped, of the benefits, too), it encourages the allocation of resources to the most effective uses, and it can even direct users along a desired route.
- Promoting the effective management of systems resources: Recharging can direct top management's attention to how their scarce systems resources are being used, and can help them to balance systems expenditure

against other competing expenditures. It also enables the systems department to balance supply against demand, and encourages them to reduce the costs of their services.

These are all worthy objectives but recharging may not be the only way to achieve them. There are also disadvantages to recharging. It encourages bureaucracy, it can lead to disputes and distraction from the real business issues, and it can even lead to incorrect decisions under certain conditions. Mr Brewer's view was that the real objective of recharging — as of all pricing — is to achieve a desired impact on customer — that is, user behaviour.

LA FACTURATION DES PRESTATIONS INFORMATIQUES

M. Brewer présente d'abord les objectifs de la refacturation puis ses principes de base en insistant sur la nécessité de bien adapter le mode de facturation à la stratégie et à la structure de l'entreprise. Il évoque ensuite les points suivants: les critères de refacturation ainsi que les diverses méthodes de budget et de fixation des prix. Il conclut en recommandant une approche en sept points:

- S'assurer de l'adéquation entre les objectifs de la fonction informatique et ceux de l'entreprise.
- Bien apprécier la position de l'informatique du point de vue du 'client'.
- Déterminer les techniques de marketing appropriées.
- Savoir où commencer et où arrêter la facturation.
- Etablir des règles précises de refacturation.
- Adapter les procédures de refacturation et de budget à la maturité du personnel informatique.
- Mettre en place graduellement.

Pour terminer, M. Brewer rappelle que la refacturation n'est pas une obligation.

BASIC PRINCIPLES

Certain basic principles apply to marketing in general and to pricing/recharging in particular:

- Communicating value: One of the objectives of marketing is to communicate value. Recharging can help to communicate the value of systems services, given that users would not appreciate their value if they were free.
- Achieving control: Scarce resources must be controlled, but this should mean encouraging their effective use rather than merely restricting their supply. There are two approaches — direct management intervention and customer self control. Controlling the demand for, and the cost of, information services is notoriously difficult, so it is understandable that systems managers should tilt the balance towards self control, and rely on recharging. The key to effective control, in Mr Brewer's view, is achieving the right balance. Direct intervention should be used to set policy, covering such issues as the financial objectives of recharging, user freedom, systems freedom, treatment of variances, audit, purchase controls, and accountability. Budgeting and pricing methods must then be designed to allow an appropriate degree of user self control.
- Matching the business strategy and structure: In the November 1983 edition of the *Harvard Business Review*, Roger G Eccles proposed a transfer-pricing model for organisations with many operating units. (The article is called 'Control with fairness in transfer pricing'.) 'Collective' organisations have low interdependence and low market diversity, so have little internal trading and no need for transfer pricing. 'Cooperative' organisations have high interdependence but low market diversity, and internal trading is mandated, with transfer pricing at cost. 'Competitive' organisations have low interdependence and high market diversity, and internal trading is determined by external market conditions, with transfer pricing at market price. 'Collaborative' organisations have high interdependence and also high market diversity, internal trading is encouraged but not mandated, and transfer pricing is agreed mutually. Thus, the appropriate transfer-pricing method depends on the strategy and structure of the whole organisation. Mr Brewer maintained that this principle also applies to systems recharging, with the balance between direct intervention and self control changing according to circumstances.

CHARACTERISTICS OF RECHARGING

As the cost of computer operations is not volume-dependent, it is difficult to fix an average unit cost that accurately reflects the true full cost. Fine tuning of recharges for computer operations is therefore not generally feasible. Recharges for development work give users little control over development projects but they do help to make users' justification proposals more realistic. There will always be a variance between total systems costs and total recharges. Cost centres manage recharges so that their costs are recovered — a relatively easy task. Profit centres manage their costs so that they are not greater than their recharge revenue — a much more difficult task.

CRITERIA FOR RECHARGING

Users should have control over the services that they use and be involved in justifying expenditure and developing budgets. They should always understand the recharges and be responsible for controlling them. The criteria for recharging for operations and for development work will vary but the benefits of recharging should always outweigh the cost of administering them. Recharges for computer operations should be proportional to usage and reflect agreed service levels. They should provide for the risks of fluctuating demand and supply, be based on output measures rather than input and be sensible and realistic. Recharges for development work should be variable in the early stages of a project and be fixed in the later stages.

BUDGETING AND PRICING METHODS

There are three common approaches to recharge budgeting. In top-down central budgeting, the allowable IT cost determines the available resources, which determine the available services, which determine recharge budgets. In bottom-up decentralised budgeting, user requirements determine systems services, which in turn determine recharge budgets, which determine revenue, which determines resources and total costs. In two-stage wholesale/retail budgeting, systems services are sold in bulk to operating companies who may sell them on (at appropriate prices) to end users.

There are six approaches to pricing:

- Do not recharge but treat all systems costs as central overhead.
- Aggregate systems costs with other overheads and allocate to users.

Charging for Information Services — Impact on Customer Relationships

- Record detailed systems costs for budgeting and justification purposes but do not recharge.
- Recharge actual costs in arrears.
- Recharge systems costs in relation to usage.
- Recharge at market price.

These are ranked in terms of their increasing effectiveness in achieving user self control. However, control of resources through user self control is based on the assumption that as long as the user pays, use of any amount of resources is acceptable. This is not always a valid assumption. It may sometimes be better to tilt the balance back towards direct intervention by management. This involves identifying the appropriate controls, assigning responsibilities, and following this up by measurement and audit. Controlling through direct management intervention is more difficult than through user self control. It demands a closer working relationship between systems and users, and so puts greater emphasis on good marketing of the systems function.

RECOMMENDED APPROACH

Mr Brewer suggested a seven-step approach to the implementation of a recharging policy:

1. Establish the business and marketing objectives for the systems function, ensuring that the business objectives are aligned with corporate objectives.

2. Review the systems function from the users' point of view. Is it a monopoly supplier, or a preferred supplier, or a competitive supplier?
3. Determine appropriate marketing techniques — should the emphasis be on services, or promotion, or partnership, or delivery, or price? Decide whether recharges would reinforce or undermine the chosen marketing technique.
4. Identify the scope for recharging, based on the best balance between direct intervention and self control. If you are a monopoly supplier, costs should probably not be recharged. If you are a preferred supplier, recharging should probably be at cost. If you are a competitive supplier, costs should be recharged at market price.
5. Set management policies for recharging (see above).
6. Assess the maturity of systems management and select an appropriate budgeting and pricing method.
7. Implement carefully. Amend and improve in the light of experience.

CONCLUSION

Mr Brewer concluded his address by reminding delegates that recharging is not always the natural and sensible thing to do. It is a marketing technique that should reflect business strategy and structure and systems marketing objectives. The appropriate recharging method will depend on the role of the systems function within the organisation.

Building Customer Relationships

Barbara Bund Jackson

Barbara Bund Jackson is a consultant in marketing based in Belmont, Massachusetts, specialising in the marketing of information technology products and services, and the use of IT in marketing and sales.

Ms Jackson began by defining marketing as the identification and satisfaction of customers' needs. The marketer's job should therefore be rather straightforward: to find customers' needs and to satisfy those needs, profitably. Unfortunately, determining customers' needs is not nearly as easy as it sounds. Customers may be unwilling or unable to tell marketers their needs, and marketers may be unwilling or unable to hear.

The situation is made more difficult by the fact that customers generally buy considerably more than the physical product (or basic service). Instead, they buy the *augmented product*, the basic product augmented by all the other qualities that distinguish it — delivery, availability, image, brand name, maintenance, support, and many others.

Often, part of what the customer is buying is a particular type of *relationship* with the marketer. Ms Jackson emphasised the relationships that customers 'buy', first by giving examples from other marketing situations and then by suggesting implications for the systems function acting as an internal marketer.

There is a spectrum of customer behaviour ranging from the transaction buyer to the relationship buyer. Transaction buyers, as typified by many buyers of carbon steel, have short time horizons and can change vendors relatively easily. Each buying decision is treated as a separate transaction. As a result, purchases can be made on the basis of immediate inducements such as price, product features, or convenience of delivery. Relationship buyers, as typified by many buyers of computer mainframes, have long time horizons, largely because it is difficult and costly for them to change suppliers. Such buyers want (or, at least, feel required to have) lasting relationships with their suppliers. Often, marketers say they would

prefer relationship buyers but customers say they would prefer to buy more transactionally.

For the marketer, the key to success is often to determine what type of customer he has and to choose the appropriate marketing approach. Most marketers, in fact, have a range of customers along the behaviour spectrum between relationship buying and transaction buying. Both transaction marketing and relationship marketing can be successful — and both can be unsuccessful. The approach needs to be modified to meet the needs and behaviours of different customers.

Traditionally, many systems departments have been relationship buyers in their dealings with computer suppliers (especially mainframe vendors). That behaviour has brought some

SAVOIR CONSTRUIRE DE BONNES RELATIONS COMMERCIALES

Barbara Jackson présente en introduction ce qu'elle entend par marketing et les difficultés éventuelles de compréhension et de communication entre le client et le fournisseur. Elle analyse ensuite les différents types de clients distinguant entre les acheteurs "opportunistes" qui se décident en fonction des paramètres immédiats de l'offre qui leur est faite (exemple: beaucoup d'acheteurs de matières premières) et les acheteurs "stratégiques" qui prennent leurs décisions d'achat sur la base de l'espérance qu'ils ont de pouvoir entretenir des relations solides et durables avec leurs fournisseurs (exemple: l'achat de matériels informatiques).

Barbara Jackson explique ensuite que les relations entre le département informatique et ses "clients" ont été traditionnellement du deuxième type et elle conclut en attirant l'attention des participants sur la nécessité de considérer dorénavant que certains de ces clients prendront des décisions d'achat de services informatiques également sur des motivations de premier type. Il faudra donc tenir compte de ce nouvel élément dans les relations futures de la fonction informatique et de ses clients.

benefits but it has also made many systems managers highly uncomfortable. Ms Jackson believes that their discomfort is one important factor behind the current pressure for standards and openness in the computer and communications marketplaces.

In the past, many of the systems department's internal customers have also been strongly dependent on the department. They may not have had or have been aware of alternatives to such dependence. Recently, however, some of the department's customers have been working to

reduce this dependence. Some, but not all, want to 'buy' on a more transactional basis and, often, a systems department faces an increasingly varied set of 'customer' behaviours.

Part of successful marketing by systems functions will be recognising and dealing with different types of customer behaviour. It will be crucial for the systems department to match its approach, in part, to the customer's desired type of relationship and not to base its approach only on the type of product or service it offers.

List of delegates

AUSTRALIA AND NEW ZEALAND

BHP Information Systems

Bond Corporation

Cadbury Schweppes

Fletcher Construction

ICI

Peter Littlejohn

Bruce Calder

Richard Casey

Tony Lanigan

Ian Mackay

BELGIUM AND THE NETHERLANDS

Ahold

Amsterdam-Rotterdam Bank NV

Bankgirocentrale

Centrum voor Automatisering Noord-Nederland

Centrum voor Informatieverwerking NV

De Vaderlandsche

Ebes

General Bank

Reen van Marion

Schelte Betten

Ruud Ojevaar

Jan Looije

Joop Braber

Leo Schoovaerts

Francis Lagae

Jos Clijsters

Hubert D'Hoore

Eddy Declerk

Patrick Lootens

Rob Jalving

Ernst Megens

Henk Ter Meer

Paul Fockens

René Dikhoff

Ton Valstar

Joost Wintermans

Harry Wiegman

Hans Bos

Hajo Harts

Arie Klein Twennaar

Fred van den Brink

Hans Vriend

Norbert Panken

Ministerie Econ

NDU

Pandata

Philips

Postbank NV

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Volmac

HONG KONG

Citibank

Raymond Tam

FRANCE

AGRR

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Air France

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Patrick Fevelat

CIIRF

François Gauchenet

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Jean-Pierre Marcoff

Crédit National

Georges Brock

Gilles Claude

EDF/GDF

Claude Toulet

Pierre Vassort

France Cables et Radio

Jean-François de Gayffier

Jeumont-Schneider

Maurice Renaudie

Méridian

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Ministère des Finances

Alain Casanova

Marianne Levy Rosenwald

Peugeot SA

Edouard Le Roy

James Rebotier

Didier Sacco

RATP

Armand des Rochettes

Régie Renault

Jean-Paul Kennis

Rhône-Poulenc

Jacques Toqué

SNCF

André Bouzy

SNPE

Gilles Roccia

TELCOM

Michel Logereau

Thomson Grand PUBLIC

Jacques Leblanc

TRT

Guy Darricaux

GERMANY

Bundesministerium für Bildung und Wissenschaft

Jürgen Jesinghaus

Volkswagen

Hans Fischer

IRELAND

Aer Lingus

Dominic Coleman

Pat Noone

Patrick O'Brien

Patrick O'Molloy

Allied Irish Bank

Jim Breen

Dave Brennan

John Follis

John Timlin

An Post

Fergus Donohoe

John Kilfeather

Daniel Liam

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Department of Finance

Guinness

Irish Life

Systems Dynamics

Telecom Eireann

ITALY

Banco d'Italia

Enidata

ISTAT

Pirelli

Senato della Repubblica

Sisdo

SPAIN

El Cortes Ingles

SWEDEN

SKF

Statskonsult

SWITZERLAND

Digital

Telekurs

UNITED KINGDOM

The Automobile Association

Barclays Bank

BOC

Bowater

BP International

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Eddie Moroney
Tim Walsh
Brendan Whelan

Eric Embleton
John Haskins
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Paddy Maquire
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British Nuclear Fuels

British Steel

BUPA

Cardiff City Council

Castrol (UK)

Department of the Environment

ECGD

East Sussex County Council

The Electricity Council

Glaxo Group Research

Glaxo Pharmaceuticals

IBM United Kingdom

ICL

Inland Revenue

ISTEL

Jones Lang Wootton

Kent County Council

Kleinwort Benson

Legal & General Group

Lloyds Bank

Philips Electronics

Prudential Corporation

Reckitt & Colman

RHM Computing

Rowntree

Royal County of Berkshire

Dennis Hartley

Alan Harrison

Richard Gilliver

John Mendes

Joe Rowe

David Taylor

Peter Groves

David Hambling

Chris Trafford

Mavis McDonald

David Collins

Frances Lewis

Frank Whitehead

Rob Briggs

Alan Hood

John Hearn

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Bill Presley

Colin Brook

Brian Edwards

Tony Summerfield

Robert Assirati

Steve Matheson

Andrew Pinder

Colin Thompson

Robert Hopkins

Ann Nussey

Jonathan Abbatt

Mike Barkway

Malcolm Bournier

James Dunn

Tony Hopkins

Mandie Healy

Roger Dennis

Dick Reynolds

Jan Whitehouse

John Knott

Gerry Holland

Tony Millership

Geoff Gregory

Graham Rhodes

Brian Wallis

Mike Cooper

Robert Dyer

John Peel

List of delegates

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Mike Sayers

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Sedgwick

T Andrew Barton
Alan Parnham

Surrey County Council

Roger Toms

Swiss Bank Corporation Investment Banking

Robin Flynn

Tesco

Bob Berry
Mel Mason

Training Commission

Ray Hinchcliffe
Michael Pender

TSB Group

Don Harris
John Jermy

Union International

Roger Barber

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John Bullock
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Roger James

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Woolworths

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Kevin Newman

Yorkshire Water

Barry Lawton

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George Cox

Denise Dawes

Ian Dewis

Klaus Heinrich

Fred Heys

John Kinnear

Alain Loize

Frans Molhoek

Graham Otter

Fran Salley

Onno Schroder

David Seabrook

John Stuart

Miriam van de Donk

BUTLER COX FOUNDATION

Butler Cox

Butler Cox is an independent management consultancy and research organisation, specialising in the application of information technology within commerce, government, and industry. The company offers a wide range of services both to suppliers and users of this technology. The Butler Cox Foundation is a service operated by Butler Cox on behalf of subscribing members.

Objectives of the Foundation

The Butler Cox Foundation sets out to study on behalf of subscribing members the opportunities and possible threats arising from developments in the field of information systems.

New developments in technology offer exciting opportunities — and also pose certain threats — for all organisations, whether in industry, commerce, or government. New types of systems, combining computers, telecommunications, and automated office equipment, are becoming not only possible, but also economically feasible.

As a result, any manager who is responsible for introducing new systems is confronted with the crucial question of how best to fit these elements together in ways that are effective, practical, and economic.

While the equipment is becoming cheaper, the reverse is true of people — and this applies both to the people who design systems and those who make use of them. At the same time, human considerations become even more important as people's attitudes towards their working environment change.

These developments raise new questions for the manager of the information systems function as he seeks to determine and achieve the best economic mix from this technology.

Membership of the Foundation

The majority of organisations participating in the Butler Cox Foundation are large organisations seeking to exploit to the full the most recent developments in information systems technology. An important minority of the membership is formed by suppliers of the technology. The membership is international with participants from Australia, Belgium, France, Germany, Italy, the Netherlands, Sweden, Switzerland, the United Kingdom, and elsewhere.

The Foundation research programme

The research programme is planned jointly by Butler Cox and by the member organisations. Each year Butler Cox draws up a short-list of topics that reflects the Foundation's view of the important issues in information systems technology and its application. Member organisations rank the topics according to their own requirements and as a result of this process members' preferences are determined.

Before each research project starts there is a further opportunity for members to influence the direction of the research. A detailed description of the project defining its scope and the issues to be addressed is sent to all members for comment.

The report series

The Foundation publishes six research reports each year. The reports are intended to be read primarily by senior and middle managers who are concerned with the planning of information systems. They are, however, written in a style that makes them suitable to be read both by line managers and functional managers. The reports concentrate on defining key management issues and on offering advice and guidance on how and when to address those issues.

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