

# Total Value of Ownership: Head for the Top



*It's not just the  
cost, it's the value.*

by John Kador

*In the last ten years, the Internet-driven digital economy has changed the role that cost plays in economic transactions. In the traditional, capital-intensive economy, cost was one of the key drivers. Today, the magical effects of digitization and networking are reducing the costs of systems and transactions to levels that are – for all practical purposes – free. When cost no longer plays the predominant role it once did, it throws the entire concept of TCO on its head.*

The bottom line isn't what it used to be. By virtue of its interactivity and unrelenting pace, eBusiness redefines one of the industry's most cherished metrics, the concept of Total Cost of Ownership (TCO). When eBusiness takes technology out of the backroom and thrusts it in the very center of the revenue stream, Total Cost of Ownership yields to a more meaningful metric, Total Value of Ownership (TVO).

TVO is a set of actionable management experiences, values, policies, and best practices that provides a framework for evaluating, incorporating, and exploiting an enterprise's networked information assets. TCO focuses on the bottom line; TVO's emphasis is on the top line.

## Saving money

For most of its 50-year history, the benefits of information technology

have been focused predominantly on the bottom line. All we could think about was reducing costs, so it was no wonder we attempted to justify our investments in technology in terms of "total costs of ownership." Under the TCO platform, we deployed computers to automate back office processes and to compress cycle times. Computers helped identify and squeeze out excess workers. In terms of real productivity, it was about picking the lowest hanging fruit.

## So much more

It was important work, and reducing costs continues to be a worthy goal of any organization. But Internet-enabled technologies, for the first time, underscored the reality that companies can do so much more with technology than just save money. The new frontier of technology focuses less on the bottom line than enlarging the top line. In short, TVO is less about saving money than making money.

*As the pulse of creating and delivering value increases, eBusiness becomes less about controlling costs than optimizing end-to-end value.*

Business has always been about creating a compelling value proposition, and eBusiness isn't any different. The only thing that eBusiness has really changed is the velocity of delivering value. As the pulse of creating and delivering value increases, eBusiness

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becomes less about controlling costs than optimizing end-to-end value. TVO measures the ability of an organization to use technology to enable business by enlarging the top line – by using technology to identify new markets, create new opportunities, and exploit new sources of revenue.

### Five themes of the digital economy

The Internet, finally, ties the industrial and information economies together to create the digital economy, an environment with a brand new set of operating principles underscored by a whole new set of economic realities. It is in the intersection of these five themes

that the most important implications of TVO reside. It is by manipulating these five themes in the context of TVO that enterprises will derive sustainable competitive advantage. If you don't understand this truism, someone who does will gain an edge.

At least five themes define the role of TVO in the digital economy.

### 1. Compression

The digital economy has no patience. In a network economy, immediacy becomes a key driver and variable in business success. In the 1950s, technological developments such as xerography or instant photography ensured a revenue

stream for decades. At the same time, designing an automobile literally took a decade from conception to production.

In order to succeed today, enterprises must operate in accelerated real-time, continuously and instantly adjusting to changing business conditions through information immediacy. The typical life span of consumer electronics products is two months. Now it takes Chrysler two years, not ten, to design a car, although even that is too long by a year.

**Lesson:** *You don't have to worry about costs or cycle times in the digital economy. They will compress whether you want them to or not. Concentrate*

## Customer Outcomes in the Traditional Marketplace vs. Digital Economy

Marketplace	Digital Economy
<b>Management Emphasis</b>	
Cost	Value
<b>Marketing Messages</b>	
Simple	Detailed
Controlled	Open
Monologue	Dialogue
<b>Distribution Channels</b>	
Limited	Unlimited
Static	Dynamic
<b>Velocity of Product/Service Development</b>	
Slow	Fast
Methodical, linear	Continuous; version oriented
<b>Evolution of Products and Markets</b>	
Tangible	Intangible
Standardized	Customized
Emphasis on Container	Emphasis on Content and experience
<b>Industry Boundaries</b>	
Static	Dynamic
Owning	Controlling
Competing	Partnering
Us Against Them	Us Against Us
<b>Customer Expectations</b>	
Forgiving	Discerning
Vendor-Driven	Customer-Driven
Broadcast	Interactive
One to Many	One to One
Undifferentiated	Permission Marketing

on how you can move those trends to the top line to create value.

### 2. Digitization

In the simplest sense, digitization refers to representing content in ones and zeros, the language of computers. But the ability to represent content – text, video, audio, images – in this way opens up the door to unprecedented opportunities. Digitization changes the entire concept of cost.

In the digital economy, the first copy may cost a million dollars, but subsequent copies are essentially free and indistinguishable from the original. Moreover, anything that can be reduced to bits can be distributed for free.

**Lesson:** *There is no margin in managing the costs of creating and moving bits around a network. Manage the value of giving it away.*

### 3. Personalization

Personalization is the organizing principle of business in the digital economy, just as mass production was the organizing principle of the traditional economy. Mass producers dictate a one-to-many-relationship. Personalization takes advantage of information technologies that create the type of products and services that cannot be compared to a competitor's.

Why? Because these products and services are unique, the result of an ongoing, one-on-one dialogue with each individual customer. The results

**The differences between the traditional marketplace and the digital economy require a different management mindset.**

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can take our breath away. Today, we can order custom fit jeans, PCs, and have pharmaceuticals compounded uniquely for us.

**Lesson:** *It's not about controlling costs; it's about managing relationships at a profit.*

### 4. Informatization

In a traditional marketing transaction, buyers didn't have much to say besides "yes" or "no." Products were standardized. Take it or leave it. The information flow, such as it was, tended to go from seller to buyer. If you purchased a vacuum cleaner, you would get a printed instruction manual and perhaps an 800 number

to call if you had problems. Even the first generation of PCs followed this model. But the digital economy has recognized the value of the metadata that was previously ignored. Metadata, in this case, represents the wealth of information flowing from the buyer to the seller, not just, as in traditional marketing, information from the seller to the buyer.

**Lesson:** *Information is an enterprise's greatest asset. Put TVO to work to protect and exploit this asset.*

### 5. Convergence

Convergence describes the phenomenon of two or more existing technologies combining to create a

new force that is more powerful and more efficient than the sum of the technologies. Convergence is not a new dynamic; it has been going on as long as people have been developing and refining technologies. The critical point is that the outcome of the convergence is never really predictable. People sometimes believe that convergence operates by combining technology A with technology B, and getting a hybrid that has some reasonably obvious elements of both.

That's not the way convergence works. When the technologies of the automobile and road building converged to create the Interstate highway system, no one could have

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predicted the massive social disruptions, from fast food to population shifts, that a mobile society created. The law of unintended consequences has a field day whenever significant technologies converge.

**Lesson:** *TVO is a result of the convergence of TCO and the network economy. Understand the technology drivers that sit on top of today's enormous investments in systems.*

### Forces at work


For the first time in history, technology is poised to emerge from the supporting role it has traditionally played in supporting businesses. In the next millennium, technology

will take its rightful place as the dominant and leading mechanism for defining markets, growing businesses, and creating value. There are many forces at work driving this evolution, but two of the most significant are visualization and predictive networks.

Making this leap will require a new way of thinking about such fundamental notions as return on investment, brand equity, and customer relationships.

We are just beginning to learn how technology aligned with business processes can add to the top line, or, in other words, how technology can enable the business. We still have lots to learn about using technology

to create new markets or tear down barriers so we can compete more effectively.

A new generation of managers will have to think radically to transcend the notion that computers are only to automate, accelerate, and calibrate business as usual. Making incremental improvements to the status quo won't get us anywhere. You can't increment your way to success in the 21st century. No one ever changed the world by reducing costs. 

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*John Kador's latest book, with Amir Hartman and John Sifonis, is Net Ready: Strategies for Success in the E-economy (McGraw-Hill, 2000). He can be contacted at [jkador@jkador.com](mailto:jkador@jkador.com)*