

ITPMG



A Comprehensive Framework for IT Cost Reduction in Today's Economy

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Discussion Outline

- 2009 IT Challenges
- IT Cost Reduction – Why is This So Difficult?
- The Realities of IT Cost Reduction
- Key Perspectives on IT Cost Reduction
- Conclusions
- Appendix

2009 IT Challenges

2008 was a challenging year for IT organizations. 2009 is likely to be even more difficult.

Most IT organizations have already taken steps to reduce IT spending in 2009. With the likelihood that additional business and IT cost reductions will be necessary, IT leaders are asking themselves the following questions:

- Have we done enough?
- Are we going to be able to deliver the cost savings to which we already committed...
... and still keep everything running?
- Where are we going to find additional savings in 2009 and beyond if we need them?
 - How much deeper will we need to cut?
 - How big is the remaining opportunity?
 - Are we going to be able to cut more costs without doing irreparable damage to our future?
 - What risks are we taking?
- How are we going to be able to support the business with IT resources to participate in IT enabled business cost reduction initiatives?
- How can we retain our critical/high performing IT staff and keep them motivated?
- Is the leadership of the company on board with what we are doing and what they need to do?
- Are we going to be properly positioned to be able to take advantage of growth opportunities when the economy turns around?

IT Cost Reduction – Why is This So Difficult?

IT Cost Reduction has always been difficult.....

- Getting the business on board
 - Business leaders that don't understand the drivers of IT cost
 - Lack of clearly defined responsibilities for achieving IT cost reduction > business management role
- Cost reduction addressed via isolated /multiple efforts addressing the same set of costs
- IT cost reduction as a hobby
 - Attempting to utilize part time internal resources who are already committed and overworked running day to day operations or leading critical projects
- Lack of prioritization of program investments – trying to do everything
 - *“There is no such thing as a bad cost reduction idea”*
- Lack of integrated, meaningful information about IT spending
 - IT practitioners that don't understand finance and accounting and the drivers of IT cost

..... and it will be even more difficult in 2009

- Management will need quick answers...and quick results
- Ability to make tough trade-offs now that the first round of reductions have been achieved
- Getting the resources (people and funding) to work on additional cost reduction activities
- Maintaining the morale of your organization

The Realities of IT Cost Reduction

Every organization's approach to IT Cost Reduction will be unique. Depending on your situation, some "popular" cost reduction ideas will not be viable in your target timeframes

- Up to 2/3 of your cost reductions will come from headcount reductions
 - Organizations risk destabilizing their current operations and impacting their ability to respond to future opportunities as they lose their most knowledgeable and effective resources
- Application Portfolio Rationalization – can you achieve bottom line savings in your desired timeframe?
 - It is difficult to develop a positive Business Case for Application Portfolio Rationalization that pays back in less than two years and does not include business benefits
- Who really benefits from the recommendations that you get from suppliers?
 - Do your homework on recommendations from hardware and software vendors and outsourcing and off shore service providers
- Although there is definitely the potential to eventually save money through outsourcing, costs can actually rise through the transition period
 - Are you ready for possible reductions in service levels and flexibility?
- Server elimination yields more cost savings than server virtualization alone
 - Server virtualization requires application resources to move and revalidate applications
 - Do you have a program to repurpose servers?
- Even though it may not be technologically interesting, the best cost reduction strategy for many companies may be optimizing the performance of existing applications
- IT resources will need to be allocated to achieving the savings

IT Renaissance Perspectives on IT Cost Reduction

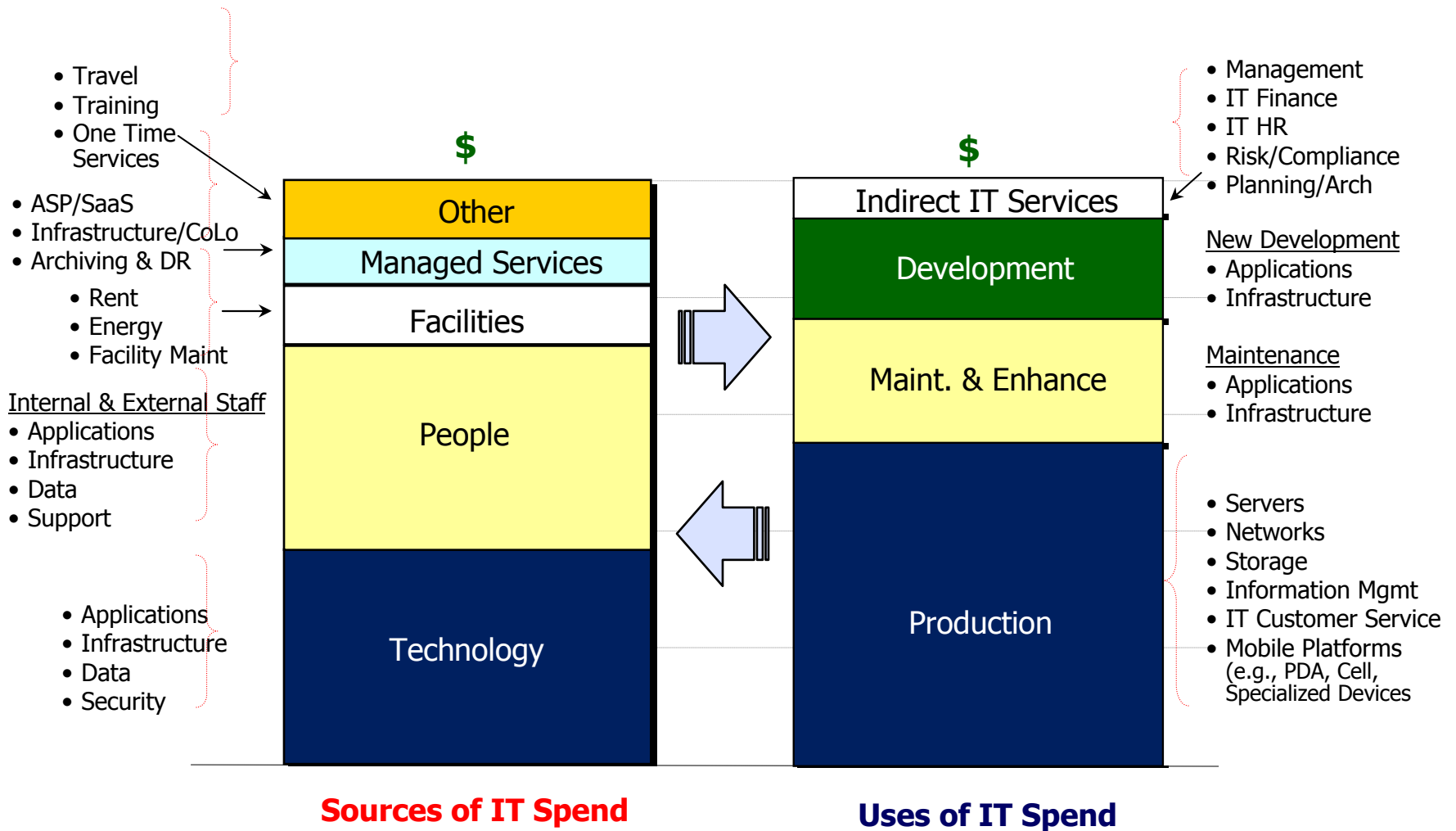
- **Lay the Ground Work:** Clearly establish the objectives, target timeframes, measures of success, assumptions, constraints and accountability
- **Understand the Economics of IT:** define the sources and uses of IT spending in business terms
- **Pursue Multiple Cost Reduction Strategies:** Understand what Cost Reduction activities you have taken – and what additional strategies are available to you
- **Manage the Lifecycle:** Understand the life cycle for IT cost reduction ideas helps evaluate the probability of success of achieving the cost reduction targets
- **IT Cost Reduction Levers:** Every organization has different IT Cost Reduction “Levers” available to them based on the target timeframe for the cost reductions, their current IT Architecture and Capabilities and the organization’s ability to invest.
- **Establish Program Management/Governance:** Execute IT cost reduction as a structured program using leading program management practices.
 - An effective **governance** process is key to establishing accountability and decision rights for ensuring successful execution of the IT cost reduction programs and actually achieving the forecasted savings

Lay the Ground Work for Cost Reduction Programs

Before launching an IT cost reduction program companies must lay the ground work

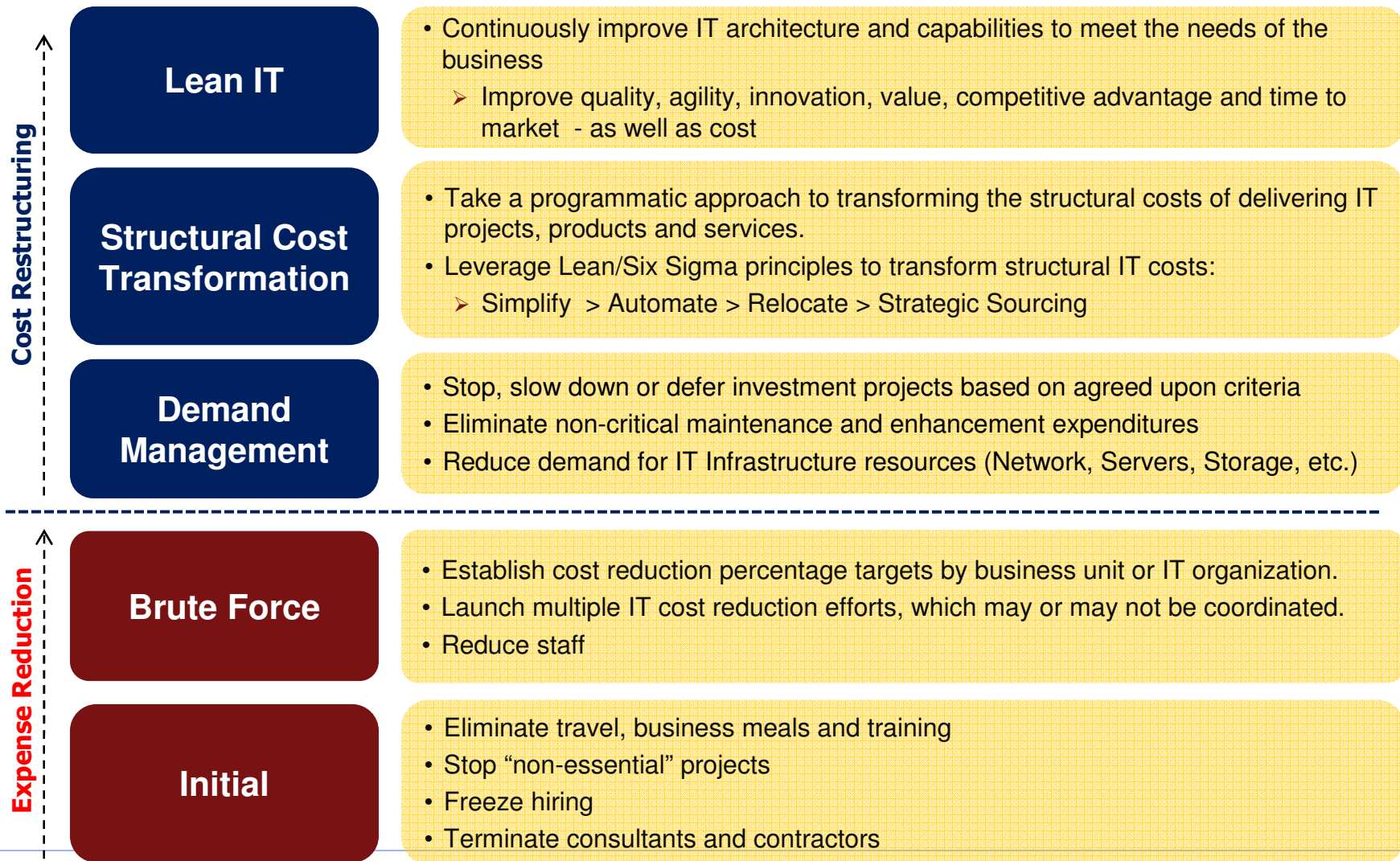
- Get the business engaged from day one
- Define explicit goals and scope for the program
- Get agreement on expectations for the cost reduction targets
 - “Real Dollars” vs. Run Rate (Absolute cost reduction vs. reduction of projected spending)
 - Cash Flow vs. P/L
 - Commitment of resources (business and IT)
- Establish the time frames for achieving the cost reductions
- Determine the funding model for the program – self funding vs. additional investments
- Identify and get agreement on assumptions and key constraints
- Establish clear ownership and accountability
 - Delivering Results
 - Providing Resources

Understanding the Economics of IT: Sources and Uses



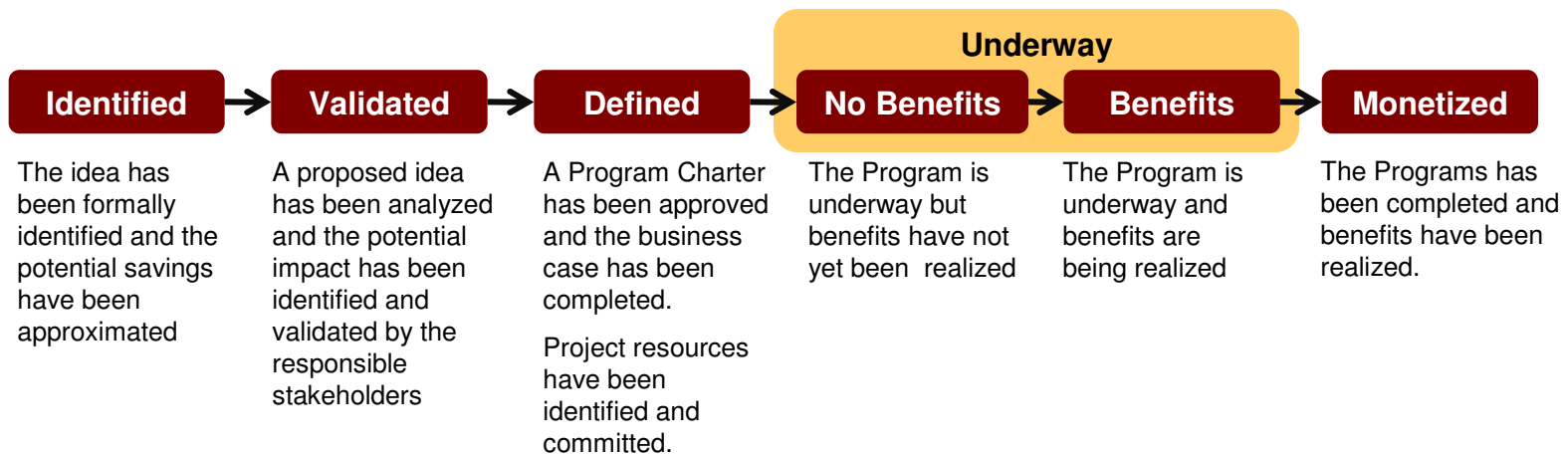
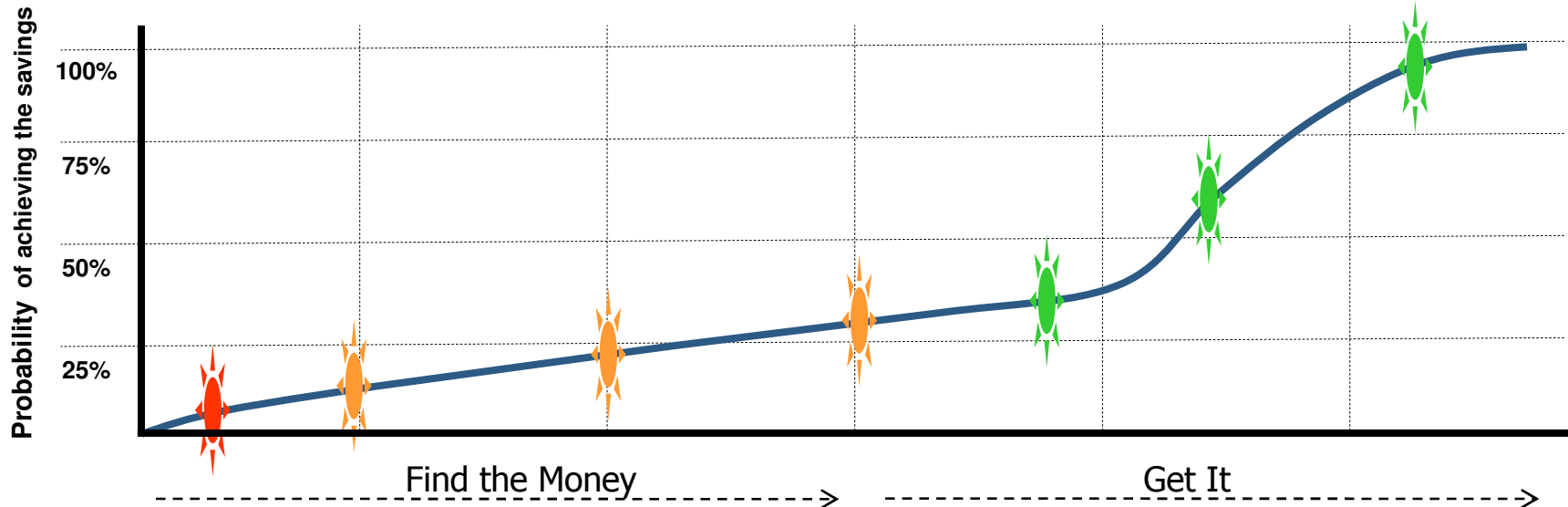
IT Cost Reduction Strategies

There are multiple IT Cost Reduction Strategies that can be pursued...



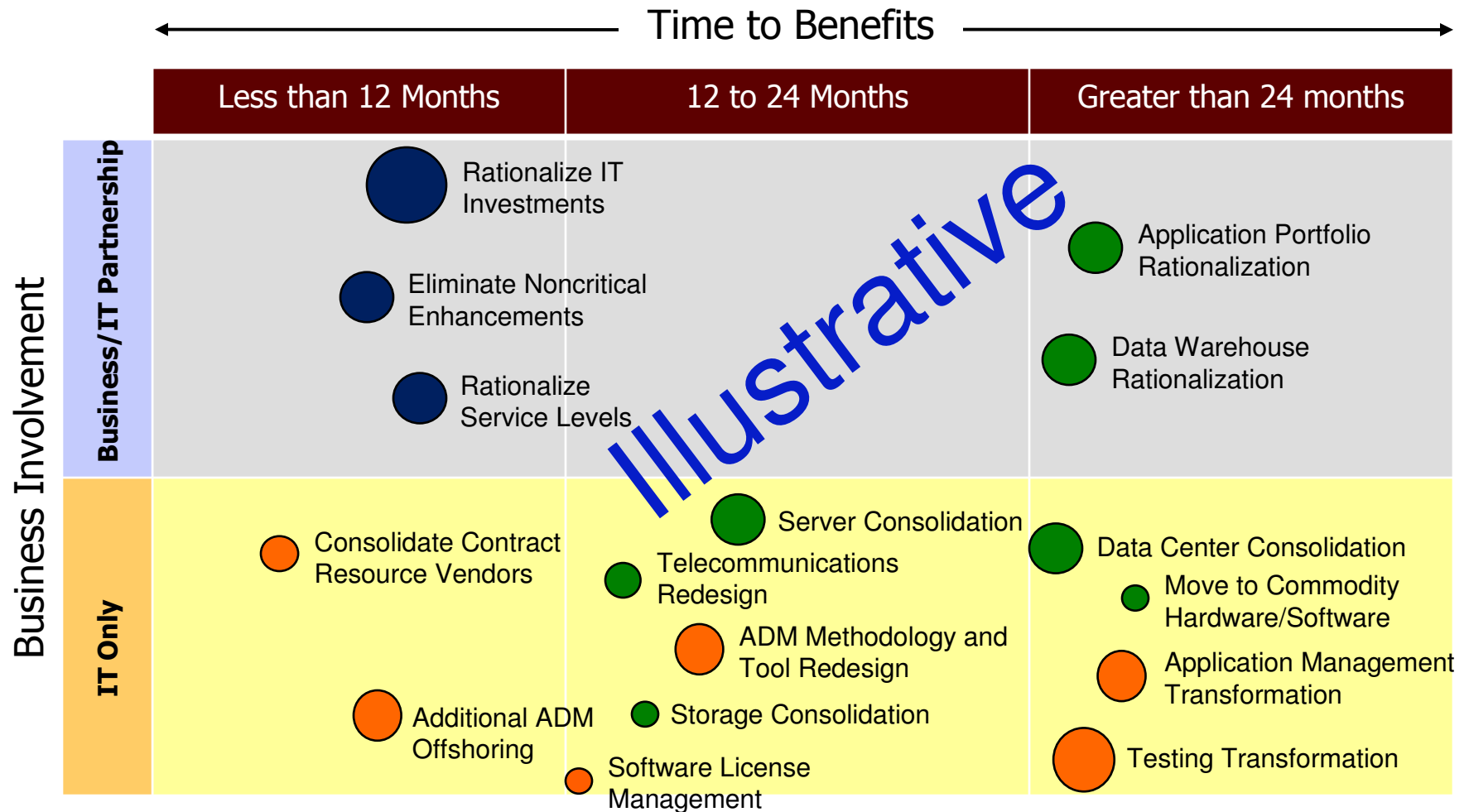
Life Cycle of a Cost Reduction Idea

The probability of actually achieving cost reductions increases as an opportunity matures along this life cycle, which must be managed



IT Cost Reduction Levers

Every organization has different IT Cost Reduction “levers” available to them based on the target timeframe for the cost reductions, their current IT architecture and capabilities, and the organization’s ability to invest.



● Demand Management
 ● IT Architecture Transformation
 ● IT Capability Transformation

Conclusions

What is it going to take to really “Get the Money”?

- Establish clear objectives, goals, and timeframes for cost reduction
- Partner with the business from day one
 - The business needs to understand and be involved in decisions that will affect them
- Assign your best people to this
 - The team needs to include IT thought leaders as well as people who can understand and perform the required financial analysis
- Get commitment from a clearly defined executive sponsor
- Establish the required governance, including clear accountability and ownership for delivering the cost reduction savings
- Run the effort as a program that leverages Program Management best practices:
- Establish metrics and reporting mechanisms to validate that the forecasted benefits are being realized
- Be careful – if you cut IT spending too aggressively you may actually increase shadow IT spending
- Start to focus on improving the IT Capabilities that created the current unsatisfactory cost situation....*or risk this becoming a perennial project*



Appendix

Getting The Business Engaged

IT is crucial that the business is actively involved in IT Cost Reduction decisions that will affect them. Business engagement starts with effective and frank communications

- Communicate with the Business in a language they understand and discuss things that they care about
- The CIO should have a meaningful dialogue with senior management about the business realities of IT Cost Reduction
 - There are many things that IT can do to reduce IT spending without input from the business (server consolidation, technology vendor rationalization and renegotiation, etc.)
 - However, there are certain costs that can only be reduced in partnership with the business (reducing application project investments, reducing service levels, etc.)
 - IT staff to actually execute IT cost reduction projects will have to come from somewhere. Some of them will probably have to be reallocated from projects that the business has requested
- If the business is still not willing to actively participate, you have two choices:
 - Only focus on the things that are not visible to the business. Unfortunately, this may not lead to sufficient savings to meet your cost reduction targets, particularly near term.
 - Do the best you can figuring out what is “best” for the business and run the tentative decisions by them before you begin execution.



**To receive additional materials on
IT Cost Transformation,
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