

# Managing IT through the downturn\*



# Overview

How do you take out cost without risking the business?

How do you ensure the benefits are tangible and sustainable?

Managing your cost base is fundamental to managing through the downturn. In the majority of organizations, IT is a significant cost. As companies look to achieve significant, rapid reductions, the IT function is coming under increasing pressure to:

- Reduce its operational costs
- Reduce discretionary spend
- Provide the tools and infrastructure to help the business do more with less

Tangible benefits need to be delivered quickly, but any short-term cost savings need to be delivered without compromising future flexibility and in a way that does not result in costs growing back in the future.

## What should you be thinking about?

Organizations need to understand their cost bases in more detail and be very clear on what activities add or destroy value, the desired business outcomes and the right activities and inputs to achieve them.

Organizations need to create the right measurement and reporting framework to monitor their cost bases and know what levers to pull (e.g. prioritization, resourcing) to ensure the program delivers. The return on investment and capital expenditure associated with the IT programs and projects portfolio needs to be reviewed. If the return on investment is not sufficient, projects need to be reconsidered.

Many organizations are partway through complex change programs. IT is often a key enabler and also a major cost element of change (e.g. design and build of new IT solutions). Change programs need to be reassessed quickly in the light of current business conditions to ensure the return and payback period is appropriate. If the return on investment is not sufficient, programs need to be stopped or alternative solutions identified.

There also has to be a focus on value from third party suppliers. Organizations must leverage their buying power to get the best possible price for software, hardware and services. Outsourced contracts such as IT and customer support centres should be tightly managed. In addition, consideration should be given to the level of service being provided and how the demand is managed. This applies equally to demand for services provided in house as well as those provided by third parties. Reviewing IT service levels and reducing support times can significantly reduce monthly IT costs without decreasing reliability.

Where acquisitions have been made or major restructuring has taken place, there needs to be a real focus on achieving the anticipated integration savings and synergies of the new, combined IT service.

# How do you make your cost management programs successful?

Sixty-five percent of 1,124 CEOs interviewed for PricewaterhouseCooper's 12th Annual Global CEO Survey cited technological innovation as an important or critical driver for long-term success.

Setting up your cost management programs to successfully deliver the benefits quickly is vitally important. Doing it in a way that is sustainable, does not increase risk to the business, and engages people is challenging.

There are a number of key factors that should be considered:

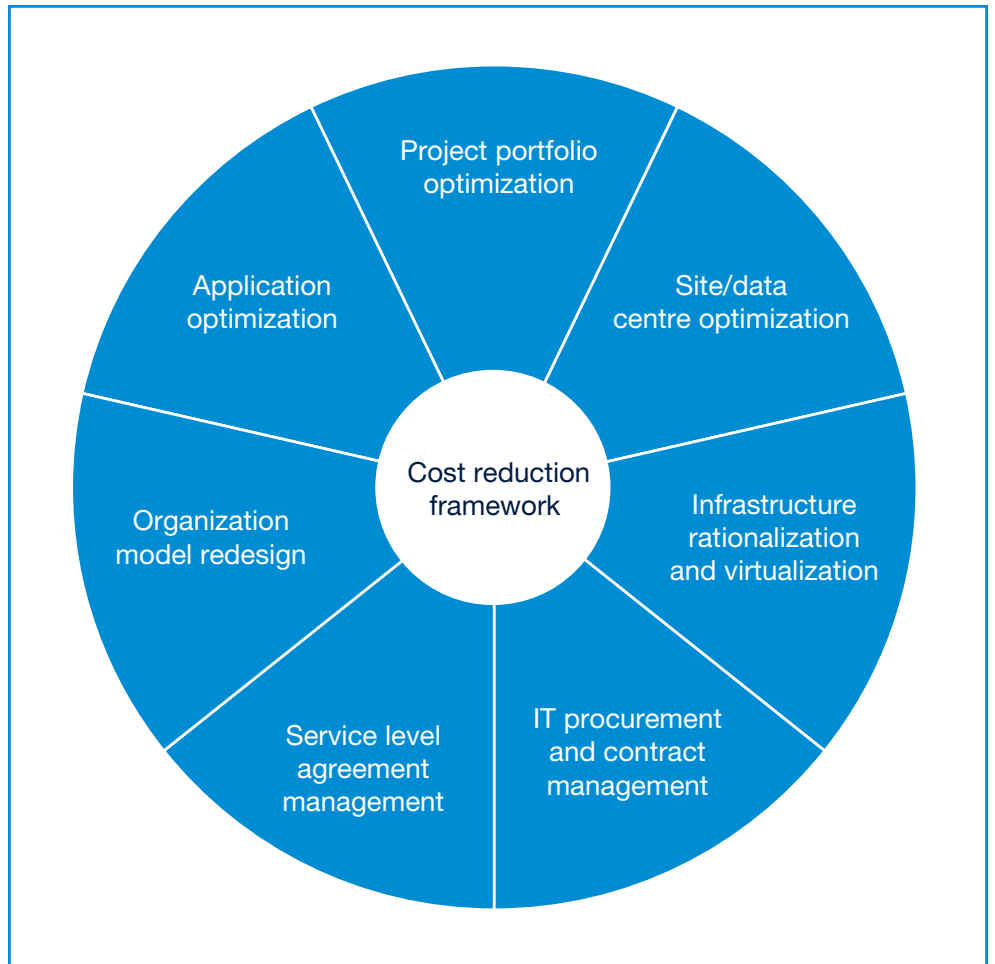
- Cost cutting needs to be mandated from the top. IT leaders need to demonstrate strong leadership.
- The program and its initiatives need to be designed to get to the root cause of what is driving IT costs, not just the symptoms. Failing to do this will result in costs growing back over time.
- Begin with the demand for IT service and be clear on what the customer needs. This means being clear on how current service and requirement levels are set.

- Any cost cutting should be part of a strategic approach to understand the IT cost base and generate competitive advantage for the business.
- Robust benefit and program measures need to be put in place to monitor and track progress. Mechanisms need to be in place to enable rapid corrective action to be taken if benefits are not being delivered.
- Consider how new technologies could be leveraged to deliver cost savings (e.g. virtualization, cloud computing, and open source software).
- Cost savings from head count reductions or restructuring need to be underpinned by process change. If work processes are not changed to reflect new IT organization structures and models, productivity will suffer in the short-term and costs will grow back over time.

Short-term (<3 months)	Medium-term (3-12 months)	Long-term (>12 months)
<ul style="list-style-type: none"> <li>• Re-assess and re-prioritize strategic capital investment programs against current and promised benefit</li> <li>• Review and value asset base and consider sale and leaseback transaction on facilities and balance sheet assets</li> <li>• Review nature of third party relationships particularly with respect to the ability to share investment and risk</li> <li>• Reassess project portfolio – stop or delay projects</li> <li>• Review applications and infrastructure – consider opportunities to rationalize, renegotiate and consolidate licence and support agreements</li> <li>• Review the IT staffing (full-time employee/part-time employee/contractors) for cost reduction opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Define optimal operational and change program framework to include and manage third party expertise and cash</li> <li>• Review service levels – renegotiate lower service levels at lower cost</li> <li>• Establish/re-negotiate third party relationships to offload IT balance sheet and link program delivery to asset “lease” repayment</li> <li>• Review opportunities for application and process rationalization</li> <li>• Consider how innovative use of technology may further reduce IT and functional cost base</li> <li>• Review the IT staffing (full-time employee/part-time employee/contractors) for cost reduction opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing programs portfolio management against promised benefits</li> <li>• Assess opportunities to broaden investment pool to enable further strategic programs</li> <li>• Review IT organizational synergies and operational cost reduction opportunities</li> <li>• Review the IT staffing (full-time employee/part-time employee/contractors) for cost reduction opportunities</li> </ul>

# Our cost reduction framework

Our approach to cost reduction is underpinned by a framework that addresses strategy, structure, people, processes as well as technology. By looking at all five dimensions, we can help you to identify tangible, sustainable opportunities to reduce cost and support the delivery of an IT service. This genuinely creates value and provides a flexible platform for future growth.



# Our approach

Our approach to cost reduction assignments is built on a simple three step approach:

- Build the baseline
- Identify and select opportunities
- Implement

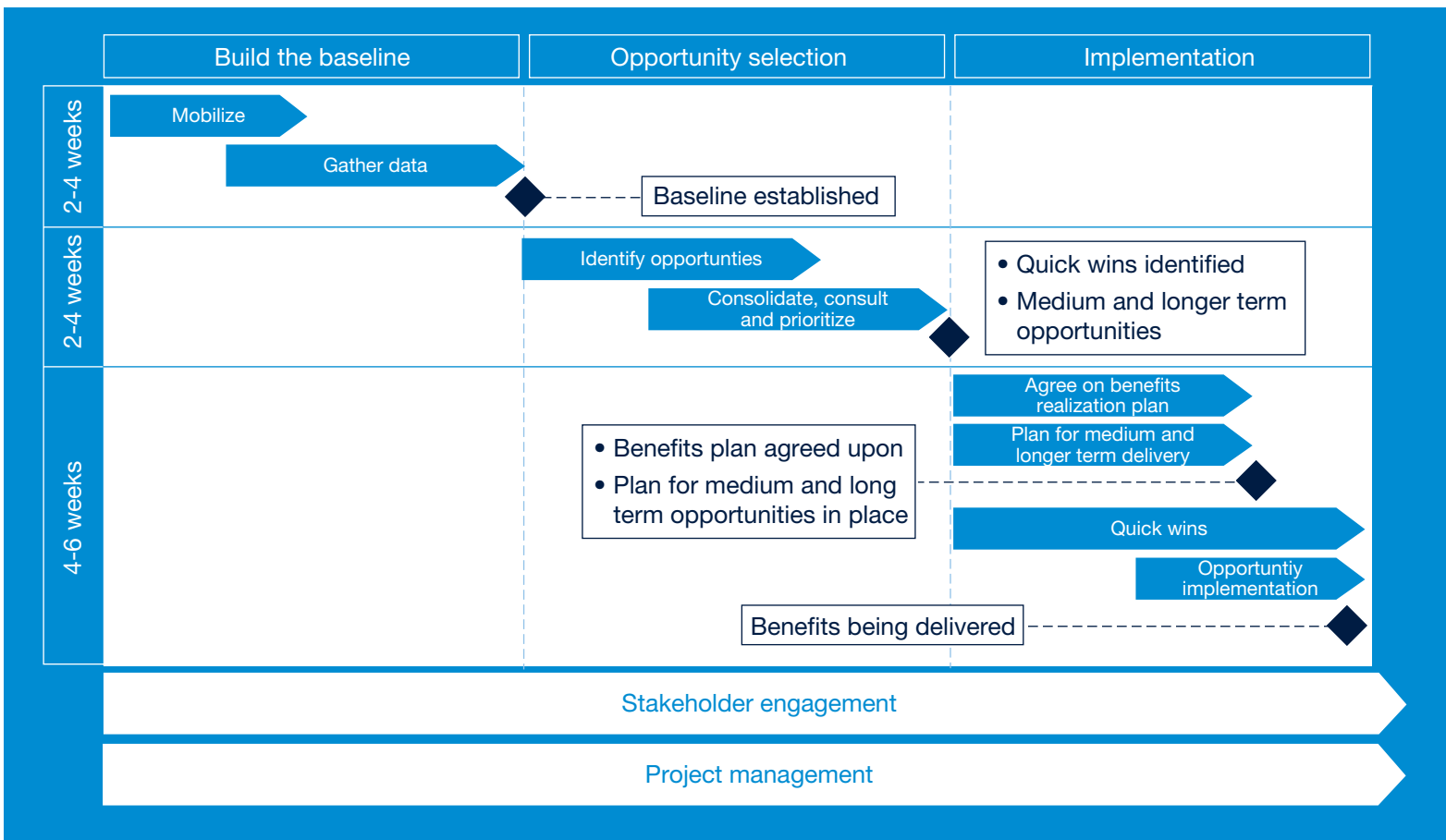
At its heart is the need to identify opportunities that will deliver tangible benefits quickly. Establishing a baseline against which cost savings can be identified and delivered is essential. The baseline needs to cover a range of elements:

- Current project portfolio;
- Applications portfolio;
- Infrastructure architecture;
- Performance metrics;
- IT service costs;
- Vendor relationships and agreements (hardware, software and services); and
- IT organization model.

Opportunities for cost reduction and efficiency improvements are identified by comparing the organization with

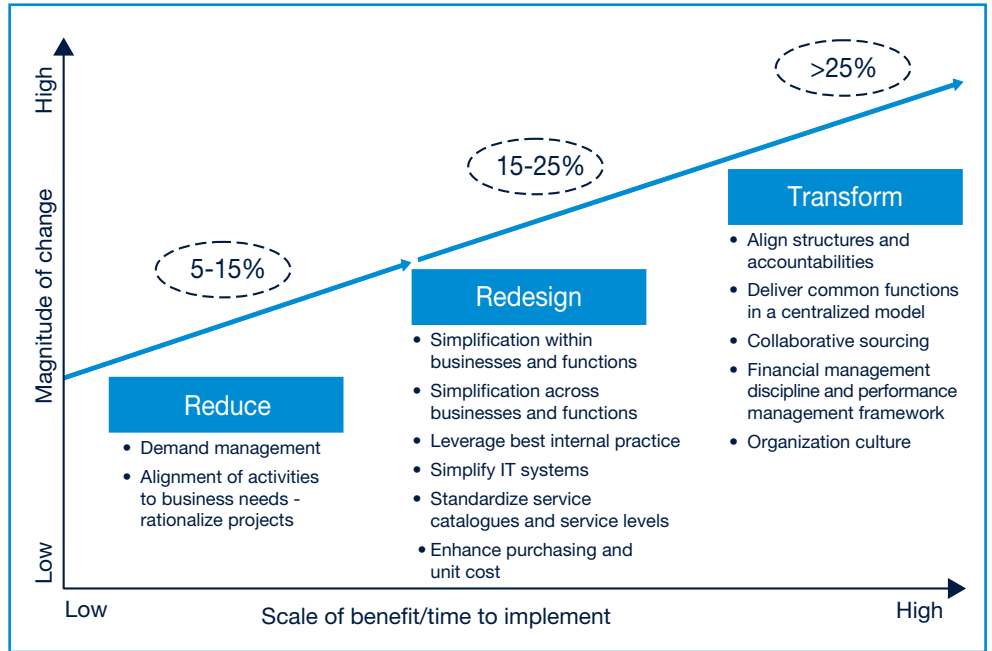
leading practices and reviewing each component of the baseline. Opportunities can start to be identified in parallel with finalizing the baseline.

Typically, opportunity identification is done collaboratively with key stakeholders from IT and the business, helping to ensure that ownership rests firmly with the organization. Quick wins identified can then be implemented. Opportunities which will take longer to deliver benefits or require more up front effort are incorporated into an overall project plan. Anticipated benefits are defined and aligned with the project plan. Agreement needs to be reached on who is accountable for delivering the benefits, how delivery will be monitored, and how benefits will be realized.



# Change and benefits – delivering the efficiency gains

It is important to think about the extent of benefits that an organization may be targeting and to be clear on and plan for the corresponding overall degree of change required early in the program.



	The opportunity	Typical savings areas	Indicative scale of benefits
Short term	Quick wins	• Contractor/temporary resource headcount	• 5-15% reduction in resource costs
	Project portfolio optimization	• Assess portfolio for alignment with business strategy • Identify programs/projects in need of remediation • Assess governance structures and business cases for projects	• 15-30% IT portfolio inventory reduction
	Procurement and contract management	• Review existing contracts • Standardize IT procurement processes	• Simplification and reduction of complexity in supply processes • 5-50% IT cost reduction through service level rationalization and IT procurement improvements (licence reductions)
	Application optimization	• Review current application portfolio for architecture alignment • Review and consolidate licences • Rationalize applications portfolio	• 10-50% reduction of maintenance and software costs (application portfolio and contract optimization)
	Infrastructure rationalization and virtualization	• Review and rationalize hardware • Virtualize server infrastructure	• 5-15% IT infrastructure cost reduction through infrastructure utilization and contract optimization
	Site/data centre optimization	• Review operational IT presence across sites • Review and consolidate data centre services	• 5-15% IT facilities cost reduction through facilities utilization and contract optimization • 2-10% IT facilities cost reduction through collaborative sourcing arrangements
Longer term	Service level agreement management	• Review and rationalize service levels • Refine processes for managing IT demand	• IT service cost reduction of 10-30% • Structured IT demand/supply • Increased sustainability of IT
	Organization model design	• Organization model redesign • Skills reviews	• Additional 5-10% in IT cost reduction • Reduced reliance on temporary IT resources • Increase sustainability of IT organization

# How PricewaterhouseCoopers can help

Increasingly, value is created across a complex network of partners, suppliers, customers, regulators and stakeholders and success depends on collaboration amongst them. PricewaterhouseCoopers' (PwC) Advisory team can help you to execute your business strategy. We advise and we implement—locally and globally. We help organizations capture opportunities, navigate risk, manage the unexpected and deliver lasting change.

When it comes to technology, the challenge for organizations lies in finding the time and skilled resources needed to manage large and complex arrangements. Is your business equipped with the insight, skills and resources to drive success?

As trusted advisors, PwC's Technology Consulting group:

- Understands the drivers, costs and benefits behind better information and IT delivery
- Provides the financial acumen to get to the numbers quickly, helping you to focus on what really matters
- Considers your strategy along with the people, process and structure elements of your IT organization, as well as the technology
- Works collaboratively with your key technology providers
- Provides independent and unbiased advice on solutions
- Helps you to embed sustainable change so you can work towards the desired benefits

Based on independent and challenging insights and supported by facts and industry benchmarks, we take the time to listen and debate different points of view. We give you the confidence to help you succeed in a connected world.

Our Technology Consulting team is ready to help.

## Who to call

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