

Managing IT through the downturn

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 organisations, 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?

Organisations 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. You need to create the right measurement and reporting framework to monitor this and know what levers e.g. prioritisation, resourcing, to pull, to ensure the programme delivers.

The return on investment and capital expenditure associated with the IT programmes and projects portfolio needs to be reviewed. If the ROI is not sufficient, projects need to be reconsidered. Many organisations are part way through complex change programmes. IT is often a key enabler and also a major cost element of change, e.g. design and build of new IT solutions. Change programmes need to be reassessed quickly in the light of current business conditions to ensure the return and payback period is appropriate. If return on investment is not sufficient, programmes need to be stopped or alternative solutions identified.

There also has to be a focus on value from third party suppliers. Organisations must leverage their buying power to get the best price for software, hardware and services possible. Outsourced contracts e.g. IT, customer support centres, should be tightly managed and consideration given to the level of service being provided and how the demand is managed. This applies equally to demand for services provided inhouse 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 programmes successful?

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

Setting up your cost management programme 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 and be seen to demonstrate strong leadership.
- The programme and its initiatives need to be designed to really 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 who and 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 programme 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. virtualisation, cloud computing, opensource software.
- Cost savings from head count reductions or restructuring need to be underpinned by process change. If work processes aren't changed to reflect new IT organisation structures and models, productivity will suffer in the short term and costs will grow back over time.

Short-term (<3 months)

- Re-assess and re-prioritise strategic capital investment programmes against current and promised benefit
- Review and value asset base and consider sale and leaseback transaction on facilities and balance sheet assets
- Review nature of third party relationships particularly with respect to ability to sharing of investment and risk
- Reassess project portfolio – stop or delay projects
- Review applications and infrastructure – consider opportunities to rationalise and consolidate licences)

Medium-term (3-12 months)

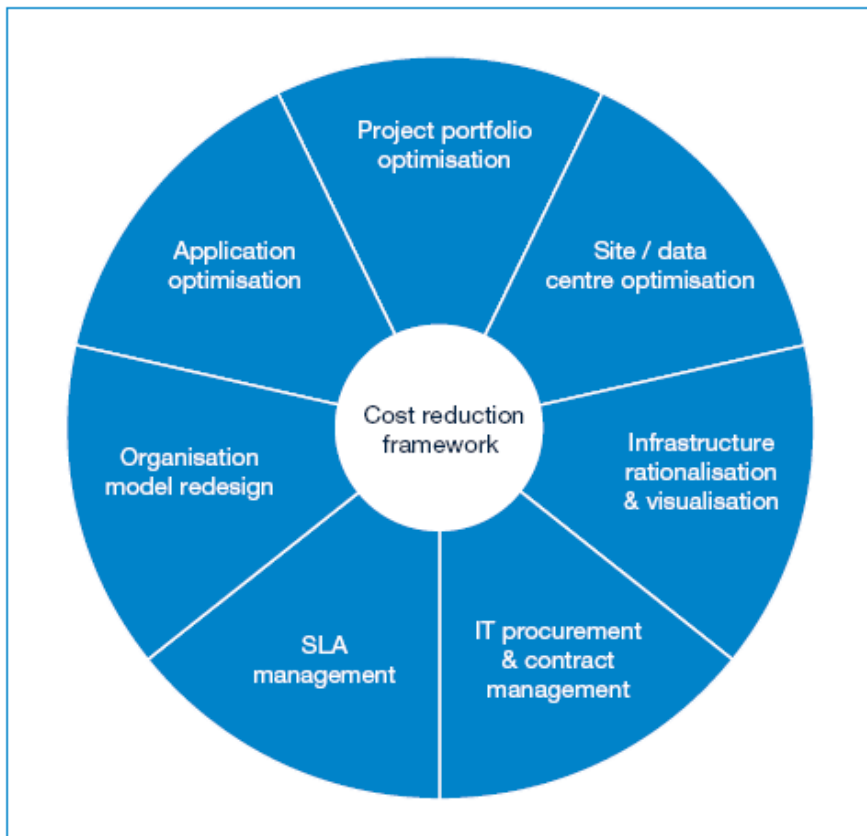
- Define optimal operational and change programme framework to include and manage third party expertise and cash
- Review service levels – renegotiate lower service levels at lower cost
- Establish / re-negotiate third party relationships to offload IT balance sheet and link programme delivery to asset “lease” repayment
- Review opportunities for application and process rationalisation
- Consider how innovative use of technology may further reduce IT and functional cost base

Long-term (>12 months)

- Ongoing programme portfolio management against promised benefits
- Assess opportunities to broaden investment pool to enable further strategic programmes
- Review IT organisational synergies and operational cost reduction opportunities

Our framework for cost reduction

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 which genuinely supports value creation and provides a flexible platform for supporting future growth.



Our approach

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

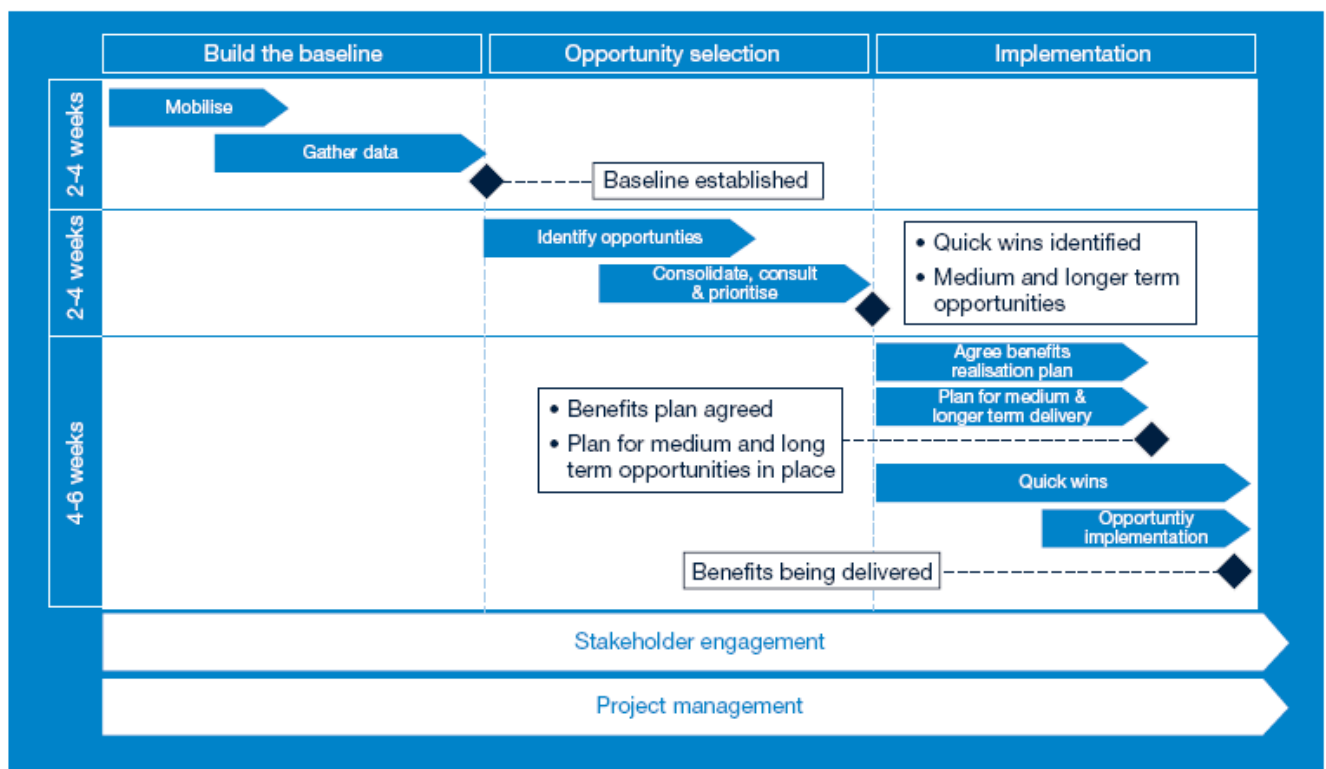
- Build the baseline
- Identify & select opportunities
- Implement

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
- supplier landscape including any third party service delivery
- IT organisation model

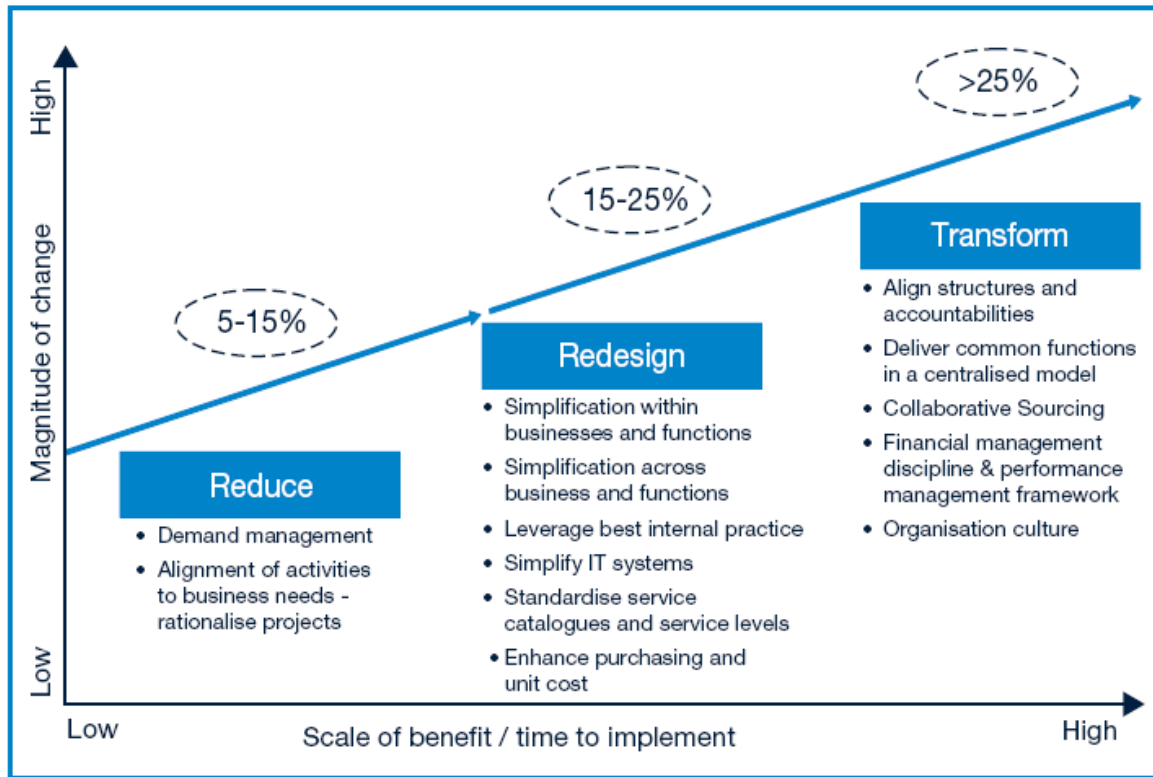
Opportunities for cost reduction and efficiency improvements are identified by comparing the organisation with leading practice and reviewing each component of the baseline. Opportunities can start to be identified in parallel with finalising the baseline. Typically opportunity identification is done collaboratively through a series of workshops with key stakeholders from IT and the business, helping to ensure that ownership rests firmly with organisation.

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 realised.



Change & benefits – delivering the efficiency gains

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



| | 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 optimisation | • Assess portfolio for alignment with business strategy • Identify programmes/projects in need of remediation • Assess governance structures & business cases for projects | • 15-30% IT portfolio inventory reduction |
| | Application optimisation | • Review current application portfolio for architecture alignment • Review and consolidate licences • Rationalise applications portfolio | • 10-50% reduction of maintenance and software costs (application portfolio optimisation) |
| | Infrastructure rationalisation & virtualisation | • Review and rationalise hardware • Virtualise server infrastructure | • 2-10% IT cost reduction through infrastructure virtualisation |
| Longer term | Site / data centre optimisation | • Review operational IT presence across sites • Review and consolidate data centre services | • 2-10% IT cost reduction through data centre consolidation • 2-10% IT cost reduction through collaborative sourcing arrangements |
| | Procurement & contract management | • Review existing contracts • Standardise IT procurement processes | • Simplification & reduction of complexity in supply processes • 2-5% IT cost reduction through service level rationalisation and IT procurement improvements (licence reductions) |
| | Service level management | • Review and rationalise service levels • Refine processes for managing IT demand | • IT service cost reduction of 10-30% • Structured IT demand / supply • Increased sustainability of IT |
| | Organisation model design | • Organisation model redesign • Skills reviews | • Additional 5-10% in IT cost reduction • Reduced reliance on temporary IT resources • Increase sustainability of IT organisation |

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' Advisory team can help you to execute your business strategy. We advise and we implement – locally and globally. We help organisations capture opportunities, navigate risk, manage the unexpected and deliver lasting change.

When it comes to technology, the challenge for organisations 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, PricewaterhouseCoopers:

- Understand the drivers, costs and benefits behind better information and IT delivery
- Provide the financial acumen to get to the numbers quickly, helping you to focus on what really matters
- Consider your strategy along with the People, Process and Structure elements of your IT organisation, as well as the Technology
- Work collaboratively with your key technology providers
- Provide independent and unbiased advice on solutions
- Help you to embed sustainable change so you can achieve the desired benefits

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

Our technology consulting experts are ready to help:

Alexey Yankovski, CISM,
Senior Manager, IT Advisory Leader, PricewaterhouseCoopers Ukraine
Tel.: +38044 490 6777
alexey.yankovski@ua.pwc.com

Gennadiy Chuprykov, CISSP, CISA
Manager, IT Advisory, PricewaterhouseCoopers Ukraine
Tel.: +38044 490 6777
gennadiy.chuprykov@ua.pwc.com