Technology consulting

Managing IT in a downturn*

*connectedthinking

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, information technology 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 produced without compromising long-term 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. You need to create the right measurement and reporting framework to monitor this and know what levers, such as prioritization and resourcing, to pull to ensure the program delivers.

The return on investment and capital expenditure associated with the IT program and projects portfolio needs to be reviewed. If the ROI 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 of change–for example, with design and build of new IT solutions. Change programs need to be reassessed quickly in the light of current business conditions as to whether the return and payback period are appropriate. If return on investment is not sufficient, programs need to be stopped or alternative solutions identified.

Also essential is a focus on value from third-party suppliers. Organizations must leverage their buying power to get the best price possible for software, hardware, and services. Outsourced contracts, such as IT and customer support centers, 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 in house and those provided by third parties. Reviewing IT service levels and reducing support times can significantly shrink monthly costs without decreasing reliability.

Where acquisitions have been made or major restructuring has taken place, organizations need 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 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 program 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.

A number of key factors 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 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 about 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 program measures need to be put in place to monitor and track progress. Mechanisms are needed so rapid corrective action can be taken if benefits are not being delivered.

- Consider how new technologies could be leveraged to deliver cost savings–for example, 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 aren't altered 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 to 12 months)	Long-term (> 12 months)
• Reassess and reprioritize strategic capital investment program against current and promised benefit.	• Define optimal operational and change program framework to include and manage third-party expertise and cash.	• Check program portfolio management against promised benefits on ongoing basis.
• Review and value asset base, and consider sale and leaseback transaction on facilities and balance sheet assets.	• Review service levels; renegotiate lower service levels at lower cost.	• Assess opportunities to broaden investment pool and further strategic program.
• Review nature of third-party relationships, particularly with respect to ability to share investment and risk.	• Establish/renegotiate third-party relationships to offload IT balance sheet and link program delivery to asset "lease" repayment.	• Review IT organizational synergies and operational cost reduction opportunities.
• Reassess project portfolio; stop or delay projects.	• Review opportunities for application and process rationalization.	
• Review applications and infrastructure; consider opportunities to rationalize and consolidate licenses.	• Consider how innovative use of technology may further reduce IT and functional cost base.	

Our framework for cost reduction

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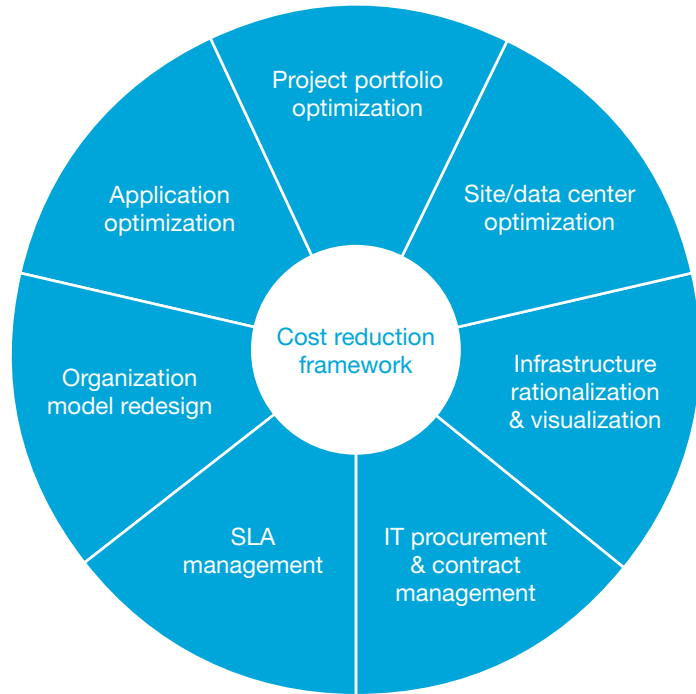
Our approach

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

- Build the baseline
- Identify and select opportunities
- Apply

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 also 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
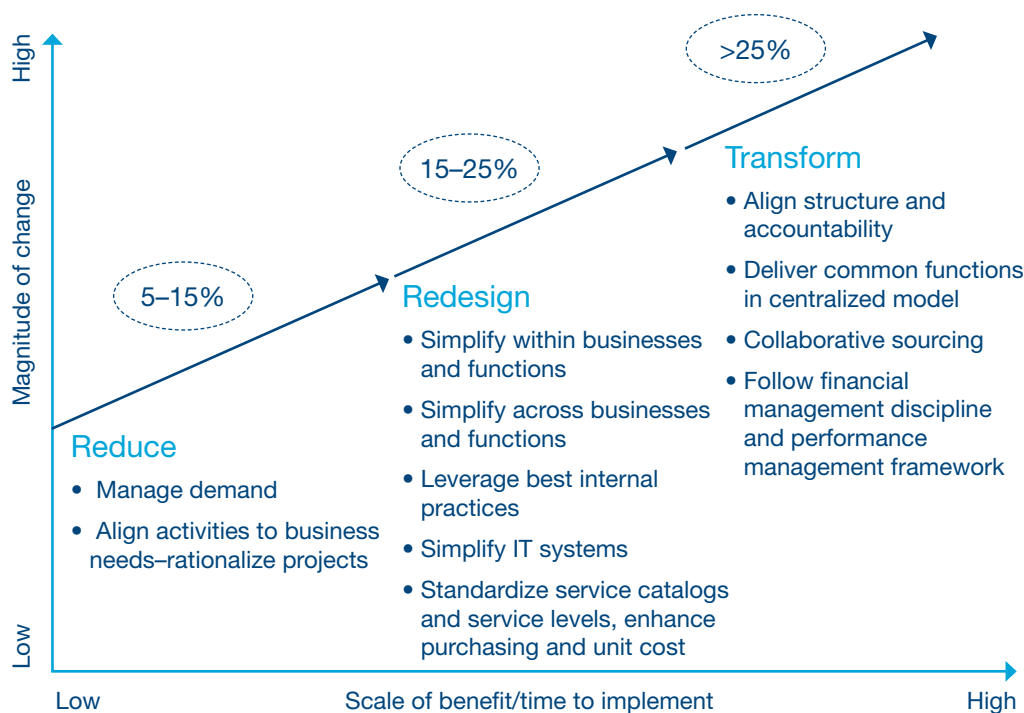- IT organization model

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 through a series of workshops with key stakeholders from IT and the business, helping to establish that ownership rests firmly with organization.

Then identified quick wins can be put in place. Opportunities that will take longer to deliver benefits or require more upfront 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.
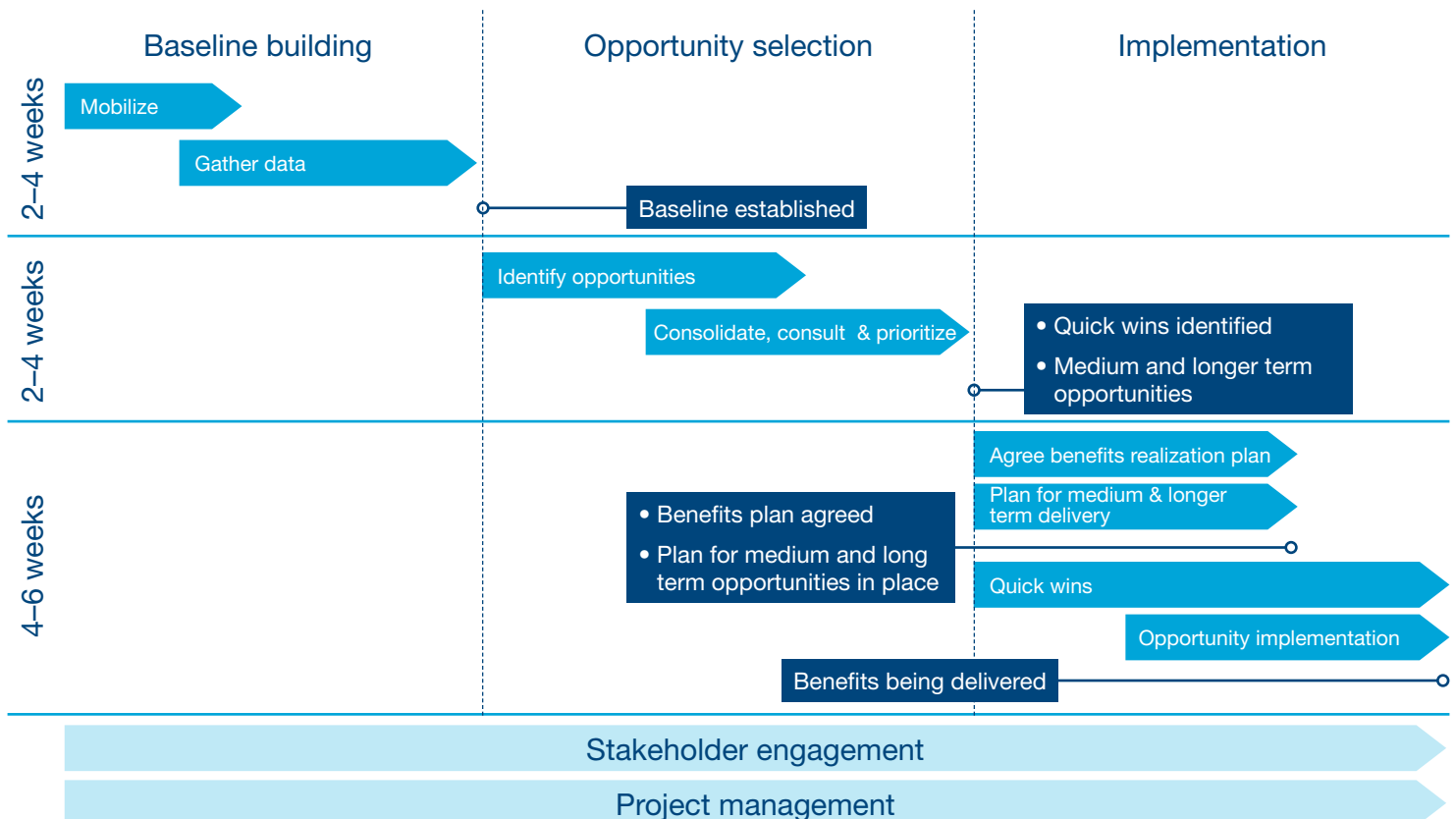
Change and benefits–delivering the efficiency gains

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

Magnitude of change (vertical axis, Low to High)

Scale of benefit/time to implement (horizontal axis, Low to High)

>25%

15–25%

5–15%

Transform
- Align structure and accountability
- Deliver common functions in centralized model
- Collaborative sourcing
- Follow financial management discipline and performance management framework

Redesign
- Simplify within businesses and functions
- Simplify across businesses and functions
- Leverage best internal practices
- Simplify IT systems
- Standardize service catalogs and service levels, enhance purchasing and unit cost

Reduce
- Manage demand
- Align activities to business needs–rationalize projects

	The opportunity	Typical savings areas	Indicative scale of benefits
Short term	Quick wins	• Contractor/temporary resource head count	• 5–10% 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 porfolio inventory reduction
	Application optimization	• Review current application portfolio for architecture • Review and consolidate licenses • Rationalize applications portfolio (application portfolio optimization)	• 10–50% reduction of maintenance and software costs (application portfolio optimization)
	Infrastructure rationalization and virtualization	• Review and rationalize hardware • Virtualize server infrastructure	• 2–10% IT cost reduction through infrastructure virtualization
	Site/data center optimization	• Review operational IT presence across sites • Review and consolidate data center services	• 2–10% IT cost reduction through data center consolidation • 2–10% IT cost reduction through collaborative sourcing arrangements
	Procurement and contract management	• Standardize IT procurement processes • Simplification of supply processes	• Simplification & reduction of complexity in supply processes • 2–5% IT cost reduction through service level rationalization and IT procurement improvements (license reductions)
	Service level 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
Longer term	Organization model design	• Organization model redesign • Skills review	• 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 among them. PricewaterhouseCoopers' Advisory team can help you to execute your business strategy toward the vision for success. We advise and we lead 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, PricewaterhouseCoopers' team:

- 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 and the people, process, and structure elements of your IT organization, as well as the technology
- Works collaboratively with your key technology providers
- Provides independent, unbiased advice on solutions
- Helps 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.

Contacts

To have a deeper conversation about how this subject may affect your business please contact:

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