

The IT Cost Reduction Playbook

Achieving Rapid, Radical & Sustainable IT Cost Improvements



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The IT Cost Reduction Playbook

A newly minted CIO at a large decentralized company inherits a fragmented IT organization with minimal authority over IT operational, spend, and performance matters. A "go-to person" is needed to show the new CIO what the total IT spend is across the company and identify the functional components of that total spend. Aggregate and detailed IT spend and performance measures don't really exist. The CIO has established some important strategic priorities and imperatives designed to establish a high performing IT organization. The CEO, CFO, and business unit leaders have all bought into the plan. Then, the outlook for revenues suddenly drops in a matter of a few weeks. All of the new IT projects and development efforts are suddenly being questioned. Lists are being drawn up across the company for employees who will be let go. Then, the CIO is summoned by the CEO and CFO and told that he/she must reduce the IT spend by at least 25% in order help the company survive in these difficult times. As the CIO returns to his/her office, he/she thinks about how IT has become such an every-day integral part of the entire business that it is almost impossible just to turn things off or do things better and still achieve a 25% reduction in IT costs. The CIO talks with his peers and counterparts in other companies and other industries and they are all facing the same issue - do more, do it better, and do it with less. It's a conundrum born out of economic and marketplace realities. The need that exists is to cut IT costs rapidly and radically without jeopardizing the short and long-term viability of the business. The CIO conjures up an image in his/her mind which best characterizes this conundrum, "It's just like trying to change the tires on a car that's not simply moving, but that's accelerating." Exhaling deeply, the CIO's next immediate thought is simple but realistic, "How can I possibly succeed in doing that?"

Executive Summary

IT retains its position as one of the largest spend categories for large corporations, and in the process, continues to confound executives regarding the best way to effectively utilize technology to survive in today's business world, and do so in an affordable manner. With today's economic challenges, IT costs are being scrutinized to achieve immediate savings, but many also want to still establish a foundation for efficiently and cost-effectively using technology in the future. The objective of this **IT Cost Reduction Playbook** is to provide you with a practical, step-by-step guide for achieving **rapid, radical** and **sustainable** IT cost improvements. The tried and true approaches and techniques discussed in this Playbook are meant to provide a starting point for delivering real and sustainable IT cost improvements today in a meaningful way.

Introduction

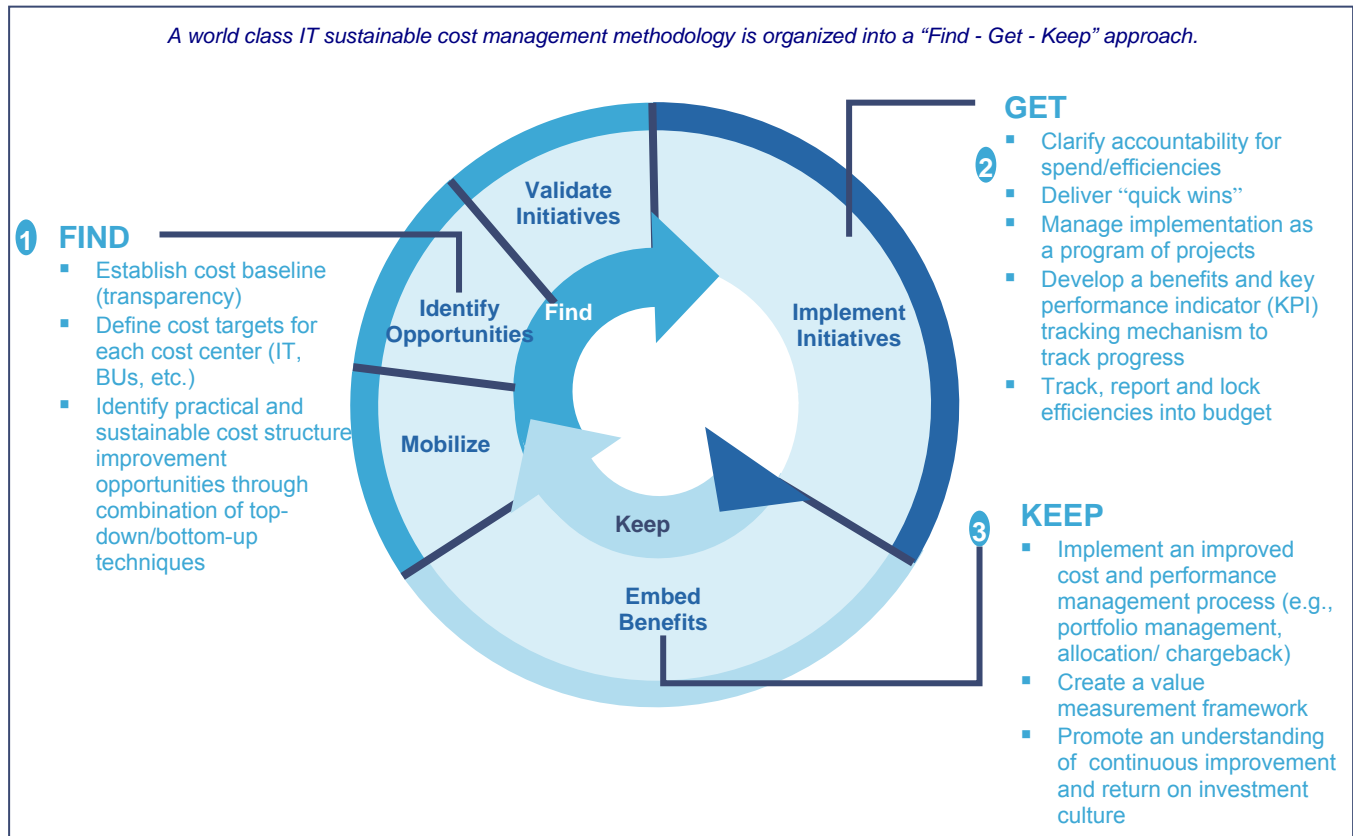
Today's unique economic times and fiscal issues have caused companies to heavily focus major cost reduction efforts on large spending targets. Specifically, those that have traditionally been viewed as 'mismanaged,' not aligned to the objectives of the business, and mistrusted - therefore, never delivering perceived value to the business. A favorite target of many executives and companies is the IT organization - sometimes justified, sometimes not. Most times, "IT" is not fully understood within the context of the integrated and massively complex interdependencies and relationships that define the business and IT relationship of the 21st century.

While for most large companies, IT expenditures are usually within the 'Top Five' of all cost categories (that is, when a company can actually see and add up their total IT spend). The IT capital and ongoing expenses of most organizations are not fully understood, clearly visible and transparent. More often than not, the IT spend, together with the IT organization itself and the CIO are 'mistrusted' in terms of their collective ability to deliver relevant value to the business. There has been some progress made, but CIO's have largely been on the defensive in trying to provide the business with appropriate visibility and transparency of IT spend and performance. A further challenge is to drive in the fiscal and operating disciplines necessary to achieve value and ownership through various IT governance/investment portfolio management/prioritization and chargeback approaches.

Nonetheless, the clarion call today with regard to IT cost management is a very simple one - deliver up the cash or the company may die - and given the size of the IT spend in most organizations, the expectation is that that there is a lot of cash to deliver. Unfortunately, the knee-jerk, 'panicked' interpretation of this message by many CIO's and other business executives is to adopt the traditional approaches that may have worked short-term magic during tight times in the past - cut heads, stop projects, reduce service levels, squeeze vendors, and generally hunker down. We call this the 'Chop and Stop' approach. However, given the uniqueness and uncertainty of today's economic times, the real mission is not to just 'Chop and Stop.' It is more complicated than that. This mission is to achieve **rapid** IT cost reduction that is accomplished through the **radical** transformation of the IT organization, spend and performance, accountability, and key management processes, resulting in truly **sustainable** approaches to IT cost management.

It's about focusing on the handful of key areas and issues that can deliver the best impact. This is not achieved by simply 'cherry picking' the easy items and trying to address them sequentially, one by one. The best analogy is that it more like "changing the tires on a car while it's moving," a seemingly impossible task on the surface because you just can't stop IT spending while you figure out how to streamline it all. You actually need to continue to 'keep the wind in the sails' and keep things moving, while you go about driving in the kind of rapid, radical transformational changes necessary to achieve the desired results. Quite a risky proposition and not a mission for the weak-hearted. Truly world class CIO's have actually made this work, but not without taking on some manageable risk. This was achieved while driving in highly business-disciplined approaches to **Finding, Getting, and Keeping** the IT savings. Successful CIO's understand that the mission is not simply an event at a point in time, but, rather a continuous process executed over long periods of time. They also understand that very often what launches the ongoing process is a critical, dramatic event. *Figure 1* provides an overview of the "Find-Get-Keep" approach to achieving rapid, radical, and sustainable IT cost reduction.

Figure 1: The “Find-Get-Keep” Approach to IT Cost Reduction



Today, that event is the economic situation. However, in the past world class CIO's have used other events such as mergers, acquisitions, divestitures, and integrations as the trigger to drive in the type of **rapid, radical, and sustainable** cost reduction approaches that establish truly sustainable IT cost management - regardless of the business environment. Notwithstanding the type of triggering event, there are several characteristics that clearly define successful IT cost management approaches, especially during times of intense economic stress, including:

- A top executive mandate and business support
- Transformational CIO behavior, not just crisis management
- Business-disciplined perspectives, approaches, and processes within the IT organization
- Ruthless adherence to a 20/80 focus to achieve meaningful and sustainable results
- An understanding that capital and operational IT spend are strategically and tactically intertwined with each other and opportunities must be looked at in the context of the 'Total IT Spend'
- Fundamental acceptance that the concepts of **rapid** and **radical** are not mutually exclusive of **sustainable**, particularly when you are looking to transform IT organizations, cultures, and spending during periods of high economic stress
- The need for a practical, understandable, and rational approach for **Finding, Getting, and Keeping** IT costs focused on simplifying, consolidating, rationalizing, standardizing, and sharing

The purpose of this **IT Cost Reduction Playbook** is to provide a practical, step-by-step guide for achieving **rapid, radical** and **sustainable** IT cost improvements using tried and true approaches and techniques that have worked successfully in organizations of all shapes and sizes.

A Perspective on IT Cost Reduction

One of the big mistakes that CIOs and other executives make in attempting to achieve rapid, radical, and sustainable IT cost reduction is a desire to achieve the maximum levels of cost reduction, while only being prepared to take the actions necessary to achieve results at the lower end of the scale. A second big mistake is the perception that cost reduction in IT has to be completely symmetrical and evenly applied and spread across all areas of the IT organization. However, a 'one size fits all' approach does not always yield the best results. It is certainly possible to achieve very high levels of cost reduction in certain areas of IT, while other areas achieve only modest reductions, or in some cases no reductions at all or even increases in spend. The objective is to achieve the right balance of actions that produce a net improvement when evaluating IT as a whole.

The chart in *Figure 2- Perspective on IT Cost Improvement*, shows the continuum of possible cost reductions that can be achieved within an IT organization - from "Improvement" at the lower end (5-15%), to 'Shift' in the middle (15-25%), and finally, to 'Transformation' at the upper end (>25%). Very often, CIOs and other executives have their sights set on achieving 'Transformation' level reductions and results, but are only willing to take on very modest 'Improvement' level actions. This is often accompanied by great fanfare and rhetoric about 'Transforming IT,' while the actual cost reduction results achieved turn out to be limited to going after the apparent and easy 'low hanging fruit,' very often in a haphazard, short-term manner. This involves traditional short-term cost reduction actions, which we call 'Chop and Stop.' This would include across-the-board headcount reductions, randomly stopped projects, arbitrary across-the-board percentage budget reductions, squeezing vendors, and instilling a level of belt-tightening panic and fear throughout the IT organization. While these actions generally appear on the surface to 'Find' and 'Get' certain IT costs, they rarely result in 'Keeping' these costs out and achieving sustainable IT cost improvements through the implementation of fundamental simplification, consolidation, rationalization, standardization, and sharing actions.

One company, a large global highly decentralized media services organization, had enjoyed many years of almost unbridled growth in revenues as a result of continually expanding market conditions and a portfolio of uniquely held content with only modest levels of market-based price pressure. The company was run using a highly decentralized organizational structure; with IT strategies, operations, and costs being managed in a fragmented manner. In fact, it was nearly impossible to add up the total IT spend of the company. But due to the continuous revenue growth, management didn't really seem to care. When it became clear that a number of the company's uniquely held content properties were no longer valued at the inflated levels they once were, management began looking at opportunities to operate on a less decentralized basis, and established mandates to achieve Transformational levels of cost reduction (in excess of 25%). From an IT perspective, that meant they needed to begin trying to understand their total IT spend on a global basis. What became evident immediately was that their previously decentralized approach to everything meant they did not have very much in the way of consistent IT spend and performance data for use in identifying and analyzing potential IT cost reduction opportunities. In other words, they had an appetite for 'Transformational' levels of savings in IT, with not much more than 'Improvement' levels of data, analytics, and process. Before they could possibly achieve such high levels of IT cost reduction, they would first need to take the steps necessary to get the fundamental IT baseline in place. They needed to crawl before they could walk, and walk before they could run.

An additional, yet equally troublesome pattern that often manifests itself occurs when organizations attempt to rush into 'Transformation' level changes within an IT organization before IT and the overall company are prepared to actually absorb those changes in a rational and effective manner. The outcome is generally a failure to properly assess the significant risk factors associated with 'Transformation' level changes resulting in the creation of high exposures without the appropriate mitigation actions in place, thus impacting the real benefits to be derived. Failure to address these risk factors can result in potentially dramatic business interruptions due to IT service failures. That doesn't mean "Transformation' level changes within an IT organization should not be attempted. It just means they need to be executed with the appropriate risk mitigation actions and safety nets in place.

Figure 2: Perspective on IT Cost Improvement

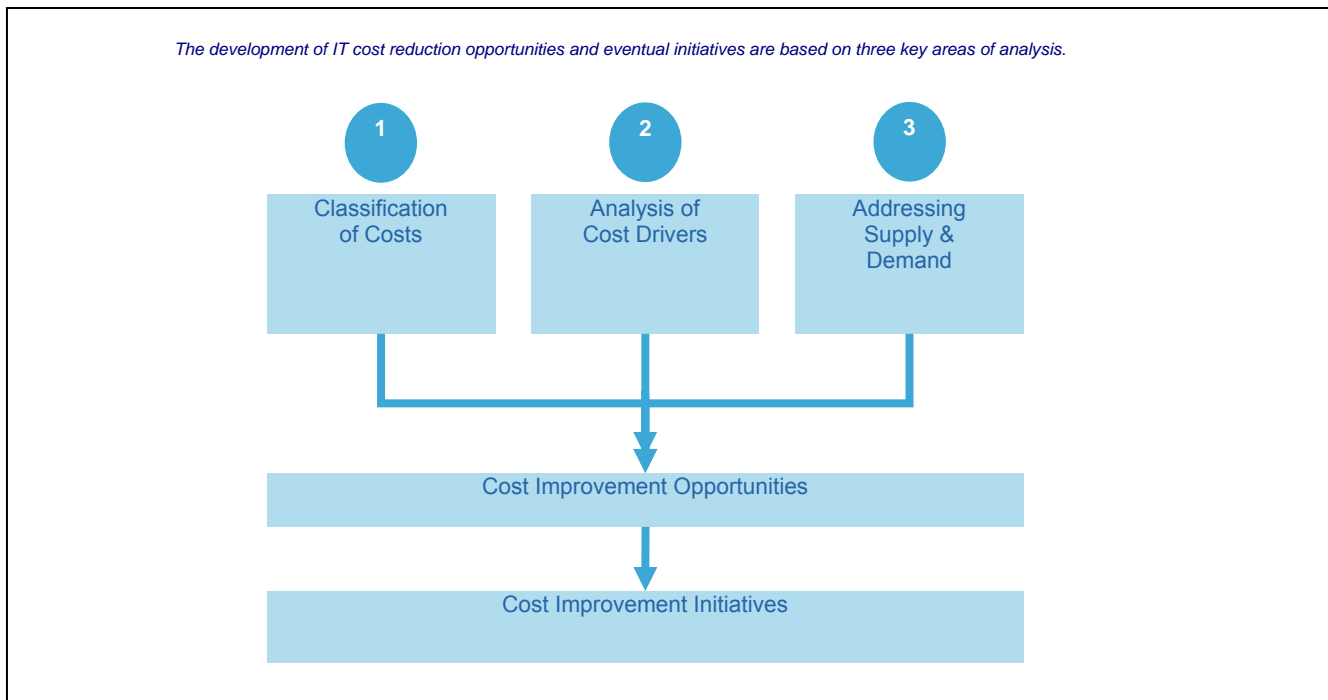
Successful IT cost reduction involves understanding and executing the actions necessary to achieve the desired level of change within the IT organization in a balanced manner, considering a variety of key factors, including business risk.

| “Improvement” | “Shift” | “Transformation” |
|--|--|--|
| 5-15% | 15-25% | > 25% |
| <ul style="list-style-type: none"> ▪ Prioritize discretionary spend and minimize mandatory spend by influencing both supply and demand of IT services ▪ Largest efficiencies found in organization structure, IT procurement, telecom-munication and projects ▪ Build-in stakeholder/change management techniques to increase buy-in on changes | <ul style="list-style-type: none"> ▪ Revision of the IT service catalogue ▪ Most new and some existing projects are stopped ▪ Significant reorganization into competency groups ▪ Minimization of service/maintenance contracts ▪ Selective sourcing to lower cost countries ▪ Selective staff reduction and simplification of management layers | <ul style="list-style-type: none"> ▪ Complete change in scope of IT service delivery ▪ Significant elimination of IT services and projects ▪ Elimination of entire IT groups ▪ Movement of IT services to lower cost countries ▪ Business agreement on risk and performance trade-off for lower cost ▪ Increased business risk |

The CIO of a large national consumer products company had decided to implement an activity-based IT costing system to drive greater transparency, visibility, and accountability with regard to IT spend throughout the organization. Prior to this, only a modest level of IT cost control existed. Establishing full-scope IT activity-based costing requires a fairly mature level of IT Finance capability within the IT organization. In addition, the level of integrity over key data sources; the rigor and discipline regarding data capture organization and analysis; plus the ongoing maintenance of these components, necessitate constant attention. In rolling out the IT activity-based costing system, the company went from a handful of IT cost line items for chargeback purposes to well over 100 IT cost line items and drivers that they expected the business units to review. They went too far too fast and the IT costing system died a slow death because the business users were overwhelmed with the 'Transformation' level of transparency provided. What they really needed to get started was an 'Improvement' level of analytics. Starting off at a slower, less overwhelming pace would have provided everyone with the opportunity to learn and adapt to the new approach to IT cost analysis and transparency, and would have ultimately accelerated the overall process.

- **Achieving IT cost reduction results** - Whether at the 'Improvement,' 'Shift,' or 'Transformation' levels requires addressing the three fundamental aspects of IT cost reduction, as depicted in *Figure 3, 'Three Pillars of IT Cost Reduction.'*
- **Classification of Costs** - Using a well-defined and structured approach to the identification, capture, and housing of key IT cost data tailored to how an IT organization actually operates.
- **Analysis of Cost Drivers** - Understanding the nature and behavior of these costs and the underlying characteristics and other key factors that cause this behavior.
- **Addressing Supply and Demand Issues** - Determining the right balance between the needs and wants of the business and the IT organization's ability to satisfy these needs and wants. An imbalance in IT supply and demand can result in either a failure to provide service or an overabundance of costs, neither of which is an optimal situation.

Figure 3: Three Pillars of IT Cost Reduction



These 'three pillars' define a fundamental and methodical way of addressing rapid, radical, and sustainable IT cost reduction, within the context of a broader Overall IT Assessment and Improvement Approach, which follows a seven-stage process designed to examine the root causes of IT cost across the '*IT Problem, Cost, Service, and Value Continuum*' that is illustrated in *Figure 4*.

The remainder of this Playbook focuses on the specific activities that need to be undertaken in order to "Find," "Get," and "Keep" IT costs in a *rapid, radical, and sustainable* fashion. It provides a step-by-step description of how world class organizations approach the issue of IT cost reduction in a methodical and rational manner that delivers both immediate and longer-term tangible results. This next section, "Finding the Costs," discusses the important first step in the IT cost reduction processes - identifying, classifying, and organizing relevant IT spend and performance data in an efficient and meaningful way.

Finding the Costs

'Finding' the IT costs are a function of understanding the integrated correlation between the required maturity levels of the key IT Competency areas (as identified in *Figure 5 - IT Management Lens™*), then using these to:

- Establish the appropriate level of visibility and transparency of IT spend, assets, and performance
- Focus on the 20% of the Items that create 80% of the costs
- Address the 'root cause' issues driving the cost behaviors

Figure 5: IT Management Lens™

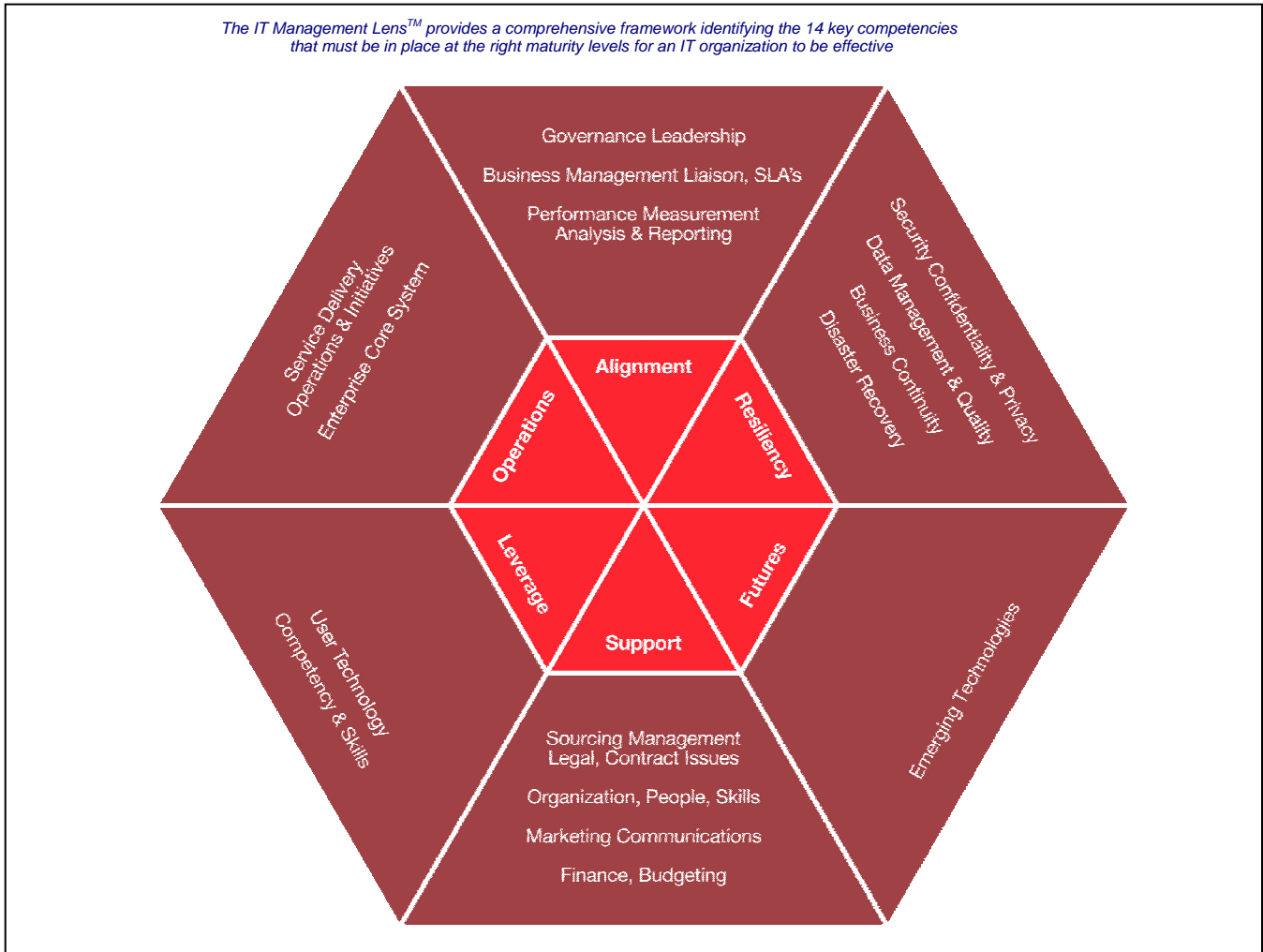
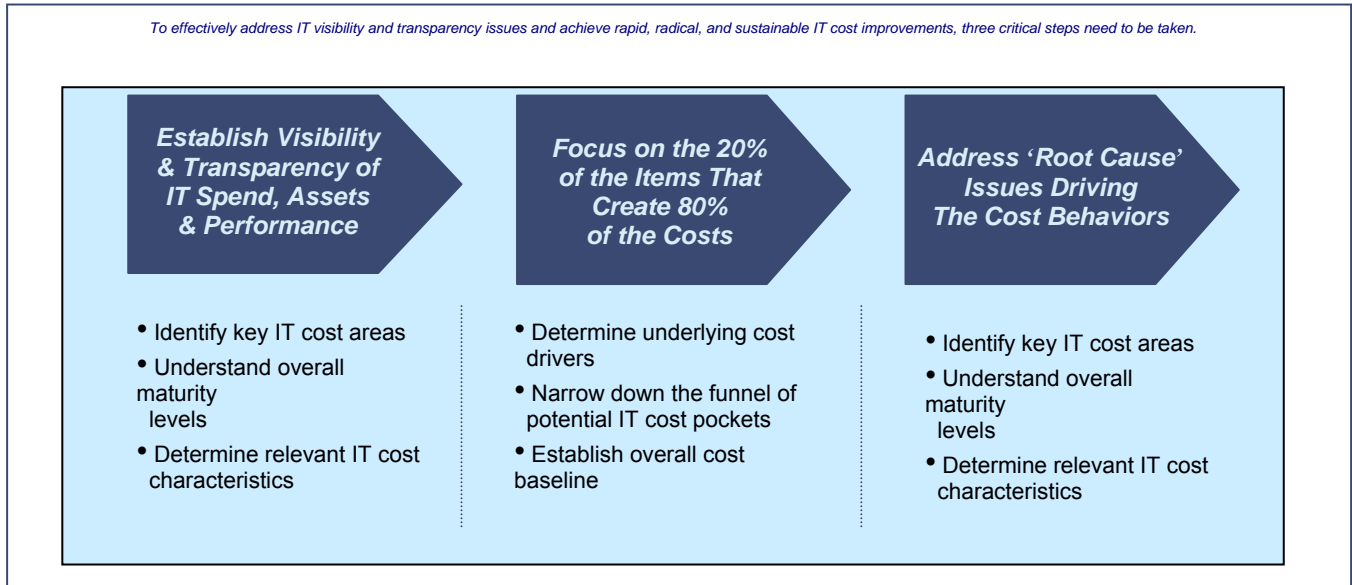


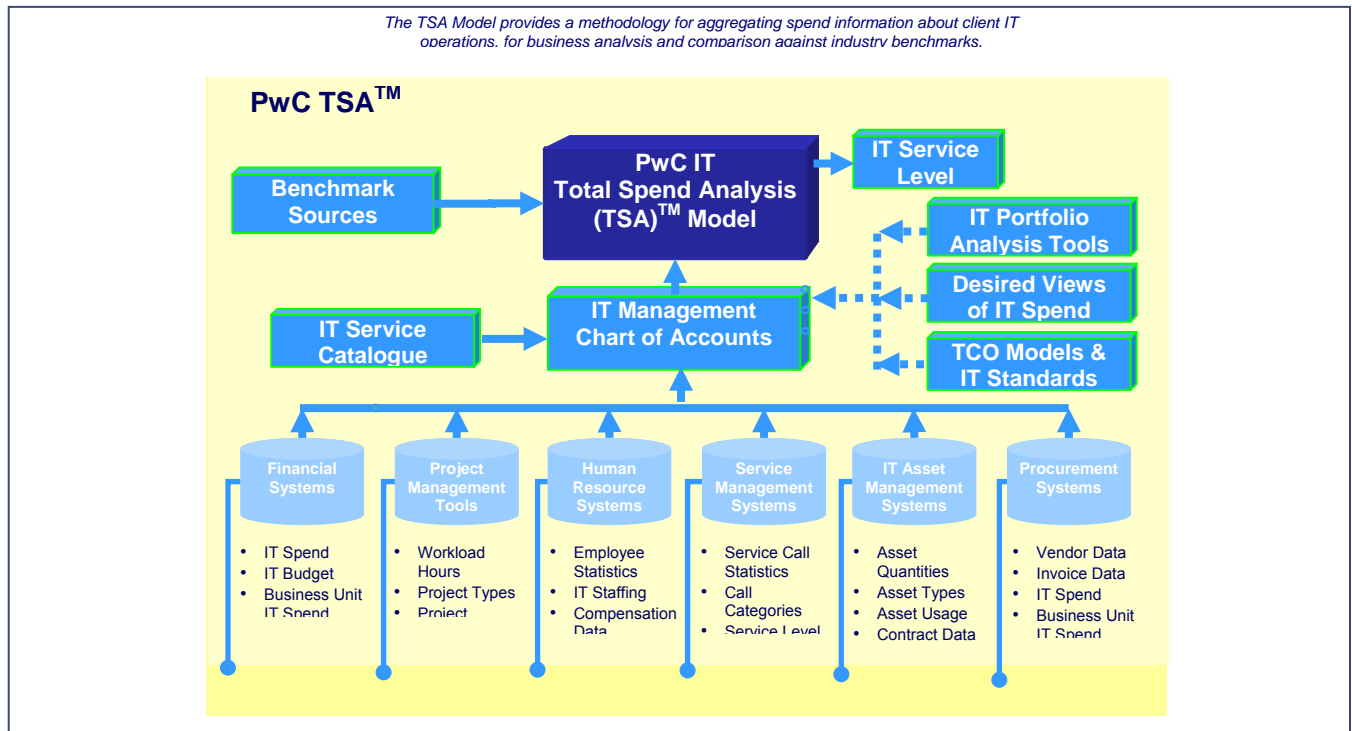
Figure 6 - 'Three Critical Steps of IT Cost Analysis,' identifies the objectives of each of the steps described above. The first step is to establish visibility and transparency of IT spend, assets, and performance. This requires gaining an understanding of the maturity levels of different components of an IT organization, as depicted in Figure 4, identifying the key IT cost areas, and determining the relevant characteristics that drive the behaviors of these costs. The second step involves focusing on the 20% of the cost items that create 80% of the actual costs, including determining the underlying drivers of these costs, narrowing down the funnel of potential IT cost pockets, and establishing a verifiable IT cost baseline. The final step in this process is to address the root cause issues that drive the identified cost behaviors, including restructuring key processes and organizational norms, establishing 'accountability factors,' and implementing relevant metrics and performances measures.

Figure 6: Three Critical Steps of IT Cost Analysis



The primary method of achieving visibility and transparency concerning IT costs is by conducting a Total Spend Analysis (TSA) using pre-structured TSA models and tools. A TSA is a means of capturing the data necessary to establish relevant views of a company's overall resource status with respect to how money and labor is being applied across the various aspects of IT capital projects and ongoing operating expenses. The TSA leverages IT Total Spend Analysis (TSA)TM models and tools that facilitate aggregating data in a form that can be compared to various industry benchmarks. *Figure 7 - IT Total Spend Analysis (TSA)TM Model* illustrates the key components and data flows associated with the TSA.

Figure 7: IT Total Spend Analysis (TSA)TM Model



The executive leadership team of a food services organization was wrestling with what they perceived to be the chronic inability of the company's IT organization to provide ongoing services in a cost-effective and timely manner and to successfully deliver new projects at all. The more they probed and asked about what IT was costing, the less transparency and visibility they got. This led to frustration over their ability to exert any level of managerial control of what was believed to be a large and growing IT budget that delivered less and less to the business. They finally insisted that the CFO insert an experienced cost accountant from the business directly into the IT organization for the purpose of applying cost accounting principles, practices, and processes that had worked well in the business for many years. The Person placed in this newly created role of IT cost manager set about the task of implementing an IT cost accounting system. But, the first step was to conduct a Total IT Spend Analysis to establish the 'one source of truth' that would be needed to begin a meaningful and actionable dialogue with regard to rationally reducing the companies IT spend levels.

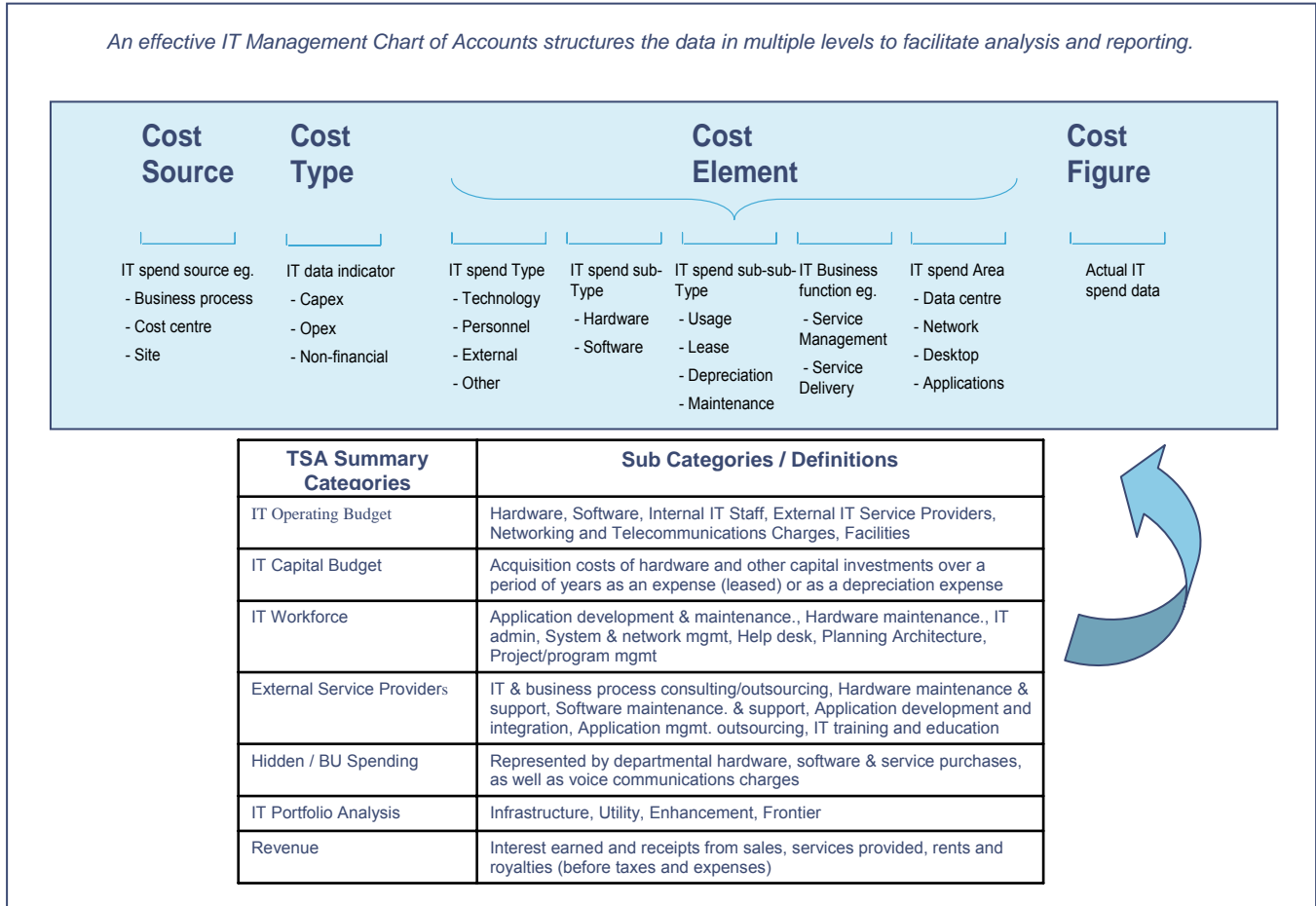
The main objective of a Total Spend Analysis is to aggregate, in one place, a picture of the total cost of IT resources (funds, assets, and people) providing information to display the implicit priorities and investments across an organization and by the type and nature of the spend. The information can also be compared with other companies to provide a benchmark snapshot related to certain key data. This can be achieved by:

- Focusing on IT budget, IT spend, and “hidden” IT spend (spending outside of the IT organization's budget, i.e. business unit spending on IT)
- Identifying spend allocation across major portfolio categories
- Reviewing key workload data related to cost: training, service desk calls, maintenance and backlog hours
- Comparing spend against well-known and relevant industry benchmarks

One of the most important aspects of ensuring consistency, relevancy, and ease of use of the data captured is the application and utilization of an IT Management Chart of Accounts designed and tailored specifically for use within an IT environment. When analyzing an IT organization, spend data for comparison against a benchmark data set should be gathered and structured utilizing the same categories and definitions. The IT Chart of Accounts is a structured and organized way of collecting, aggregating, comparing, analyzing and reporting on key categories, classes and specific functional details of IT costs. The chart is incorporated into the TSA tool and should be pre-mapped to vendor tools and appropriate benchmark sources and pre-linked, where appropriate, to various accepted industry standard approaches to IT (ITIL, COBIT, COSO, CMM, among others).

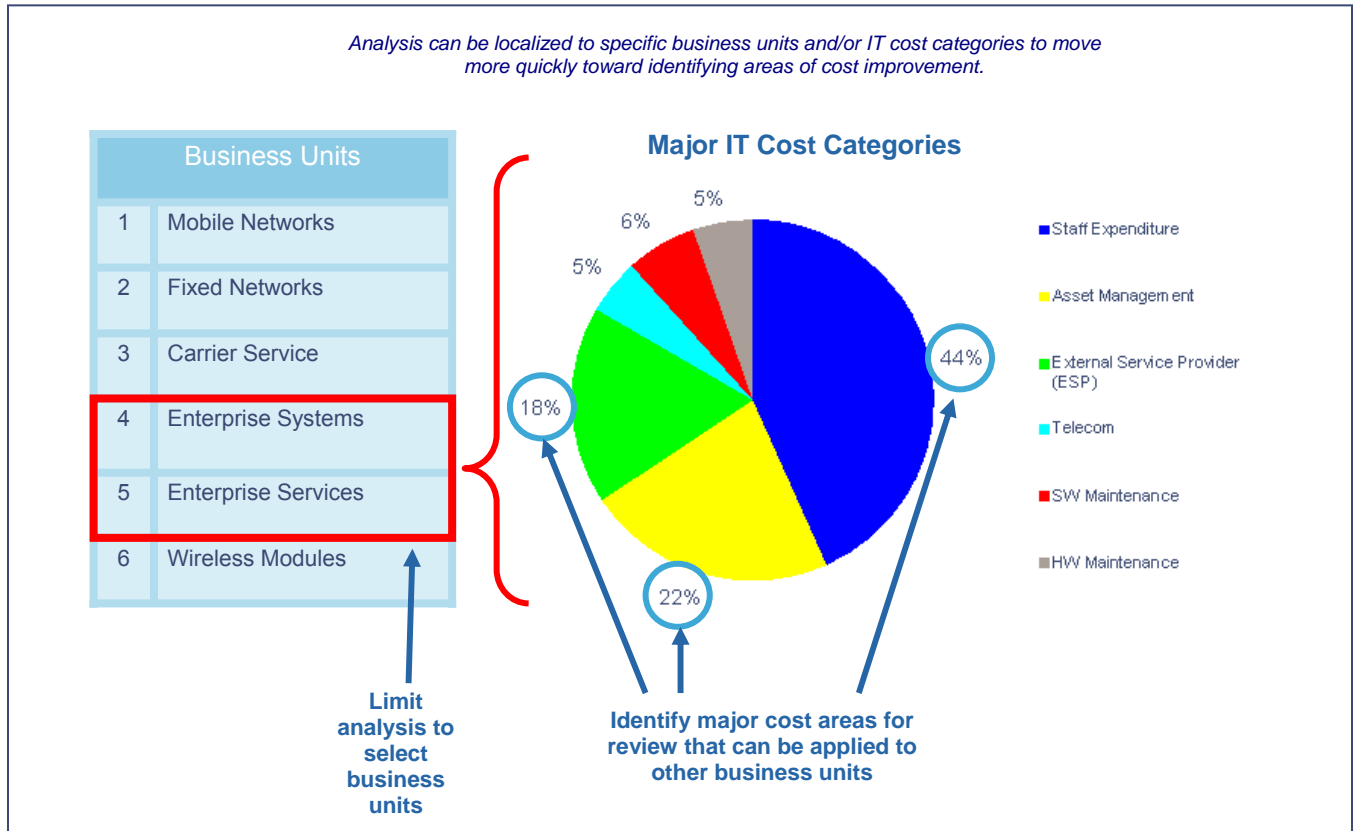
The chart is pre-defined to enable a team to hit the ground running. It captures data over a period of time vs. a point in time to better ensure that the data is representative of the true spend. In the food services company example just discussed, one of the IT cost manager's first task was to establish a uniform IT Management Chart of Accounts that could be used across the entire company to ensure that the IT spend and performance data that needed to be captured was done so in the most organized and consistent manner possible. *Figure 8 - IT Management Chart of Accounts*, provides an overview of how such a structure might look.

Figure 8: IT Management Chart of Accounts



A Total Spend Analysis can be used to establish an initial baseline to help the senior management team in better understanding their current IT spend situation. By clarifying IT spend relative to business priorities and comparing the spend to relevant benchmarks, the output can identify priority areas for further assessment. *Figure 9, Focusing on Specific, Relevant IT Cost Categories*, illustrates how the TSA approach enables an organization to segment out major IT cost categories for the purpose of identifying 'rich targets of opportunity.' The Total Spend Analysis can also be used as the basis for defining management metrics for IT. The TSA provides reporting snapshots on spending, employee statistics, and workload data. The snapshots can be comparative against benchmarks and also show allocation of costs across major categories. The final area to focus on with regard to obtaining visibility and transparency of IT spend is related to the IT asset base. Understanding all of the components within the IT asset base is a crucial factor in being able to define the full IT cost structure of an organization and in more effectively managing the costs, risks, and operational efficiencies within an IT environment.

Figure 9: Focusing on Specific, Relevant IT Cost Categories



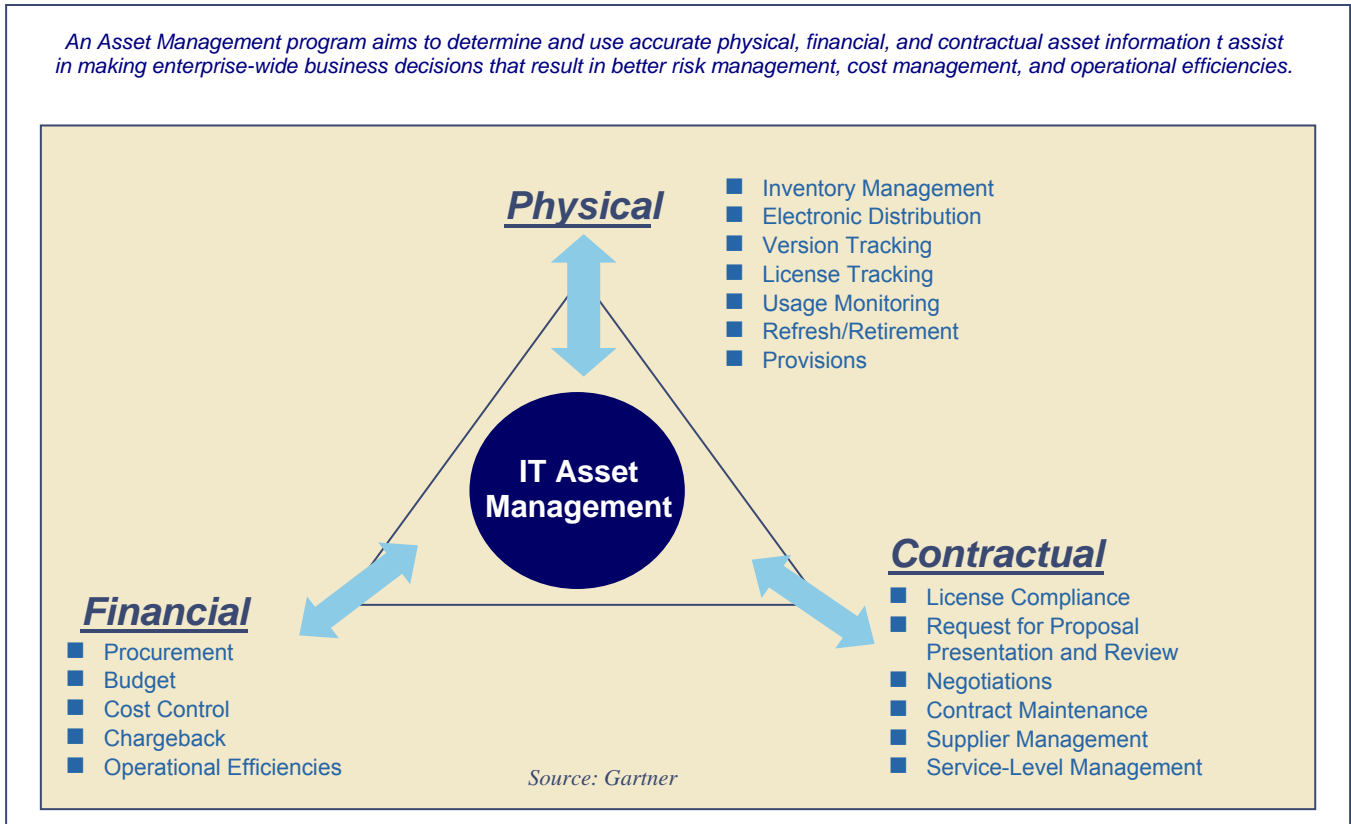
A global manufacturing services company was in the process of setting up an IT shared services function to support all of the company's business units. The widely held view was that significant, 'transformation' level IT cost reduction could be achieved by doing so. As the head of the IT shared services organization began planning to accomplish this challenging mission, one of his first tasks would be to identify, value, and then transfer all of the IT assets - hardware, software, license, leases, contracts, etc. - from the business units to the IT shared services organization. The concept of IT asset management varied widely throughout the organization and if the project was to succeed, a uniform approach to IT asset classification, valuation, and ongoing management was needed.

Effective IT Asset Management involves the integration of processes, tools, organization, and key information designed to continuously monitor the physical, financial, and service attributes of IT hardware, software, networks, licenses, contracts, leases, and services. A comprehensive IT Asset Management solution tracks multiple facets of an these assts including value, contractual agreements, leasing arrangements, service levels, depreciation, ownership, and entitlements, all of which are illustrated in *Figure 10, Key Components in Asset Management*.

Taking an appropriate economic view of IT Asset Management involves addressing the following key challenges:

- Access to key asset information
- Old and inconsistent asset information
- "MIA" (Missing in Action) assets
- Underutilized assets
- Contract overpayments
- Software license exposure
- Vendor negotiation leverage
- Business unit IT asset management accountability
- Relevant performance measures
- Continuous asset tracking/reporting

Figure 10: Key Components of IT Asset Management



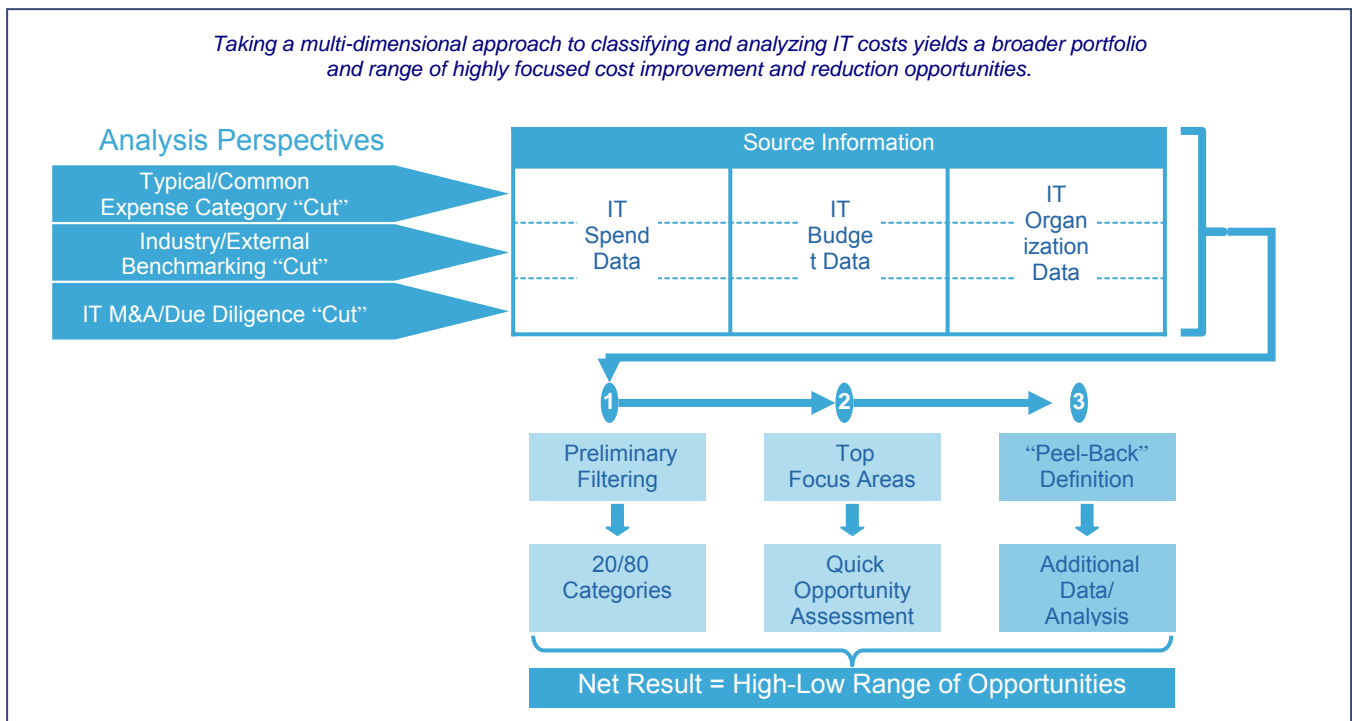
With the initial step in the IT cost reduction process now complete, it is now time to move from "Finding the Costs" to "Getting the Costs." This next section discusses the steps that need to be taken in order to effectively utilize the baseline IT spend and performance data collected in analyzing where the real cost reduction opportunities lie and in initiating the actions necessary to remove the costs and the fundamental underlying drivers of those costs.

Getting the Costs

With all of the relevant cost, performance, and asset information now gathered and structured, the next step in the process is to subject the focused data set to a rigorous series of analyses for the purpose of identifying and aggressively pursuing promising targets of opportunity. 'Getting' the costs out involves using the IT cost baseline established in the 'Find' stage including evaluating practical short-term and longer-term transformational cost structure improvements related to simplifying, consolidating, rationalizing, standardizing, and sharing across the IT environment of the company.

The most effective way of doing this is by using a multidimensional approach to classifying and analyzing the costs to provide the broadest possible perspective of opportunities. *Figure 11, Multi-Dimensional Approach to Classifying & Analyzing IT Costs*, provides an overview of a three-pronged approach to IT cost reduction that optimizes the range of possible IT cost improvement alternatives.

Figure 11: Multi-Dimensional Approach to Classifying & Analyzing IT Costs



Typically, companies will focus their analysis on the common expense categories within the IT budget, or based on the actual IT spend, or on an organizational roll-up or view of the data. Management will then either look to remove a set percentage of the spend within each cost category, or to examine the costs line by line removing specific items. Very often companies also then attempt to obtain an external industry or related view of similar cost categories for the purpose of comparing and benchmarking themselves to what other companies are doing. They then use the benchmarks to try and identify specific tactical actions they can initiate that will result in moving the specific cost category closer to the external 'best practice' benchmark.

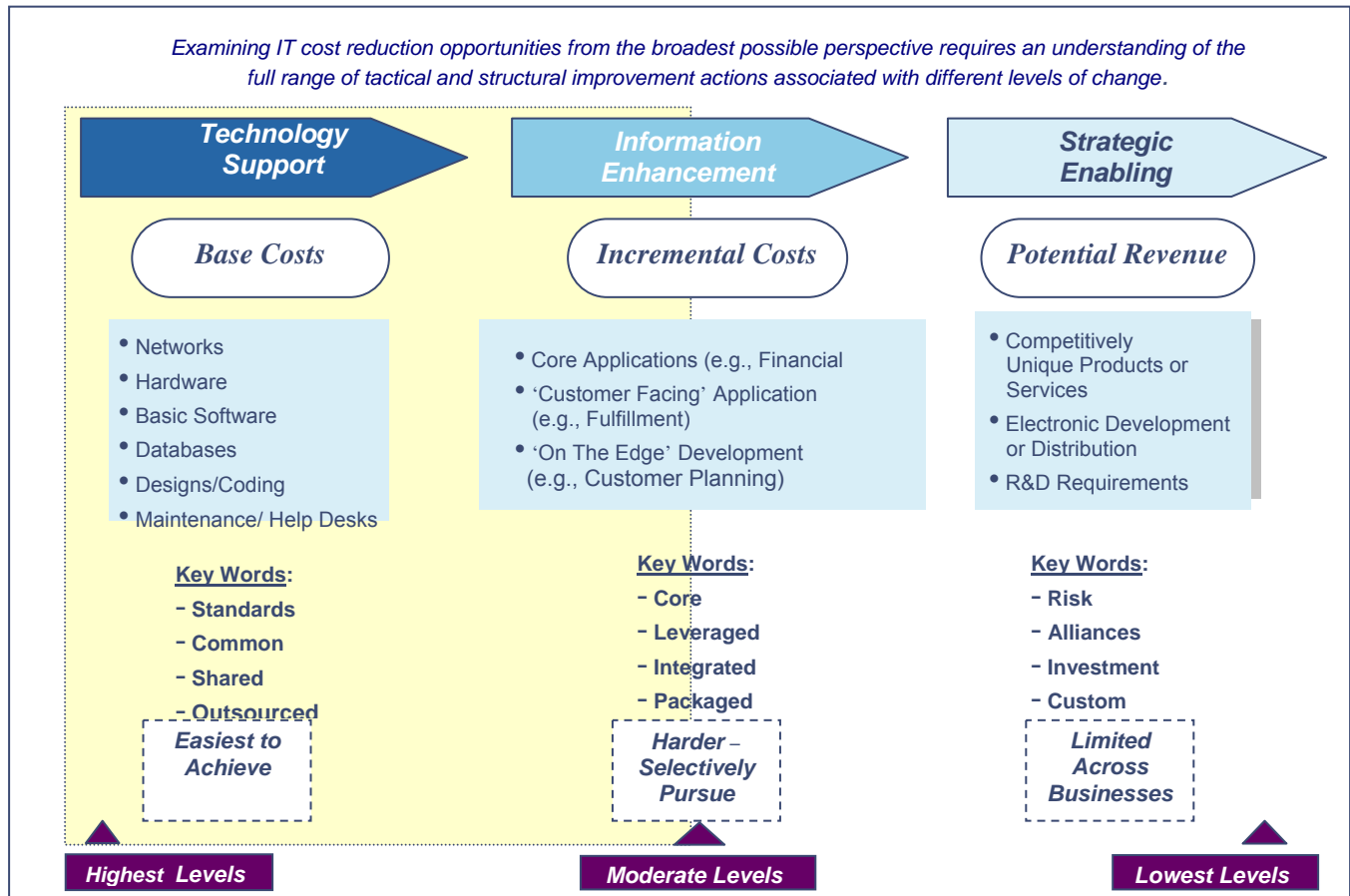
The 'common expense category' perspective and the 'external benchmarking' perspective generally will provide a lower to moderate range of opportunities. Both of these analysis approaches tend to look at the existing IT organization as it stands today and 'cherry pick' pieces of it to change. They typically do not involve major restructuring of the IT organization/culture, streamlining and 'leaning' the key IT processes, or ruthlessly prioritizing strategic and operational costs and initiatives. Therefore, the opportunity ranges fall into the 'Improvement' or 'Shift' categories described in *Figure 2, Perspective on IT Cost Improvement*.

Reaching the upper end of the range of cost reduction opportunities (the 'Transformation' category) requires taking a step back from the existing IT organization and processes and radically restructuring everything in an integrated manner to establish more of a customer-service based operation. A third analysis perspective that we believe is very important to reaching the upper range of IT cost reduction opportunities is the "M&A/Due Diligence/Investor Cut." This analysis involves evaluating potential IT cost improvements as if the company were acquired. The 'investor' mentality forces the most radical view with regard structural IT transformation and cost reduction. Pushing the edge of potential IT cost reduction opportunities in this manner incentivizes both IT and the business to rethink what's being spent in IT, why it's being spent, and how it's being spent.

Two titans in the real estate services industry had been competing with each other for decades, when one of them made a pre-emptive bid for the other. After a long, drawn out, and very public battle, the shareholders agreed to the acquisition. So now they had two of everything, including two CIO's, two fully staffed IT organizations, two sets of core systems, two infrastructures, and two networks. The mission was to get these integrated within a four-month period. As the IT integration team examined their options for 'Getting the Costs' out and streamlining everything into one high performing IT organization, they decided to not just think of this as a corporate integration exercise. Rather, they took the position that the acquiring company was a Private Equity Group focused on radically streamlining the IT organization and turning it around for sale in a relatively short time frame. Taking this perspective helped the IT integration team produce far more aggressive cost reduction opportunities and targets than the traditional incremental budget cutting approach would have yielded. Not only was the team able to use the acquisition as a trigger to identify truly 'transformational' levels of IT cost reduction, but they were able to do it in a rapid timeframe because they adopted a unique way of thinking about IT cost reduction.

Examining IT cost reduction opportunities from the broadest possible perspective requires an understanding of the full range of tactical and structural improvement actions associated with different levels of change. *Figure 12, IT Simplification, Consolidation, Rationalization & Standardization Continuum*, provides an overview of where the different components and characteristics of an IT organization might fit.

Figure 12: IT Simplification, Consolidation, Rationalization & Standardization Continuum



Source: "Managing IT as a Business" by Mark D. Lutchen (John Wiley & Sons, 2004)

Once the entire array of IT cost reduction opportunities is assessed, 'Getting the Costs' out involves a series of critical actions, including the following:

- Delivering 'quick wins' that self-fund aspects of the broader IT cost reduction program
- Clarifying accountability and ownership with regard to IT spend improvements, economies, and efficiencies
- Managing the entire cost reduction effort as an overall integrated program, rather than as a series of independent projects
- Implementing a key performance indicator (KPI) based benefits tracking and performance management mechanism
- Ensuring and verifying that actual IT cost reductions are achieved and booked.

A consumer products company had made many acquisitions over a five-year period resulting in a organization that now served three very different markets with three very different types of products. The IT organizations of each of the three separate business units operated independently; each having their own CIO reporting directly to the CEO of the business unit. IT-related characteristics of the three business units were fairly unique to each one. The first business unit had very basic IT needs, so they really didn't have to make large investments in the latest and greatest technologies. All they needed to do was use the technologies that existed in a very cost effective manner and keep things stable because marketing was what drove their revenues. The second business unit was in a high volume, low margin type industry, and while they needed to use the basic technologies in a cost-effective manner, there were also opportunities to use certain types of systems to more effectively analyze and

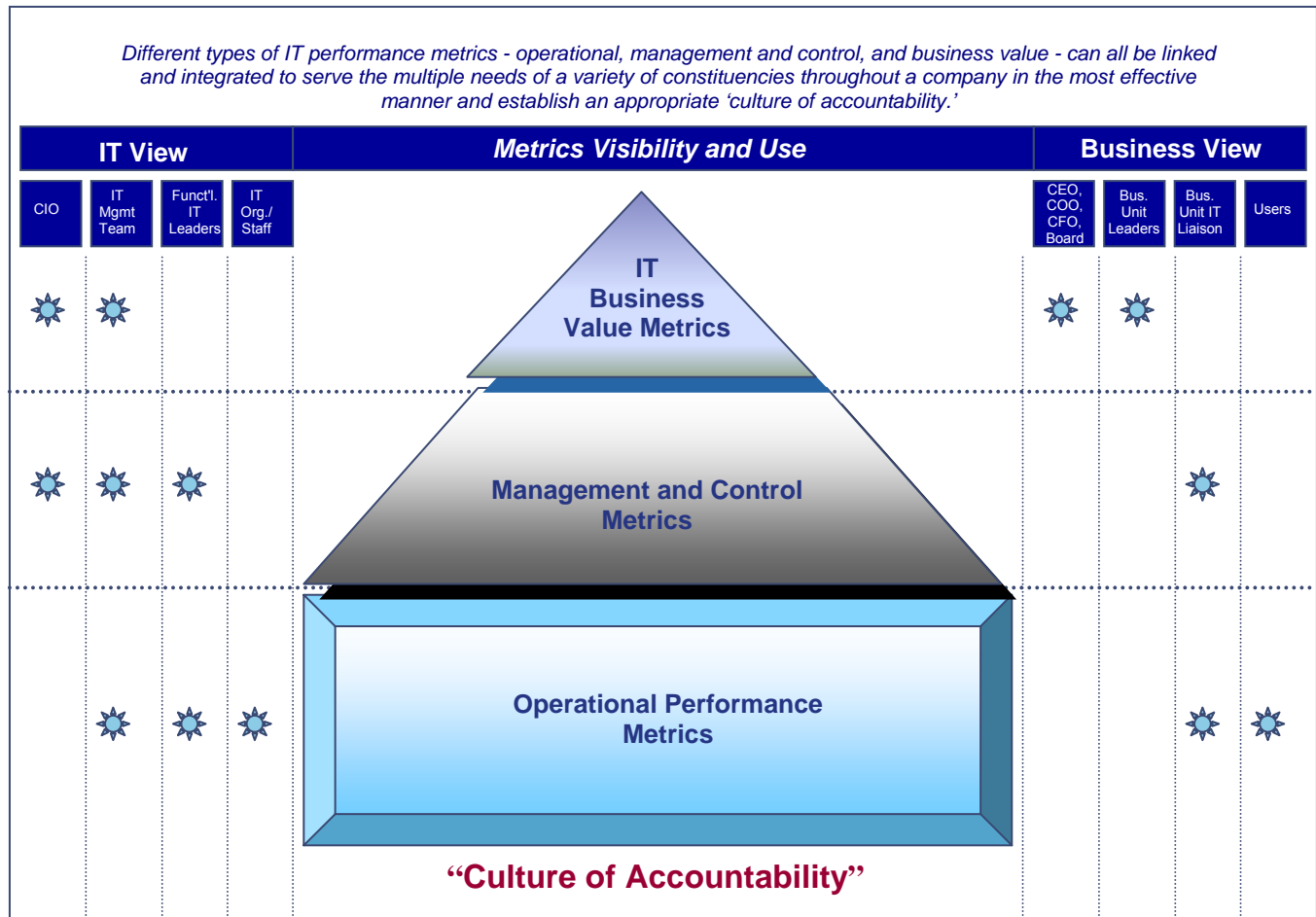
target how they generated revenues. So, they were willing to make investments in those types of technologies that would clearly give them a competitive advantage, such as logistics management. The third business unit was in an industry undergoing significant change, moving rapidly into the use of digital technology. The existing investment in legacy systems and infrastructure, focused on the old way of doing things, was clearly going to be inadequate for survival in the future. This business unit need to dramatically contain their legacy spend and make very large investments in digital technologies, while 'keeping the wind in the sails' of their existing business models until they could fully convert everything. However, the basic underlying business support technology would remain largely unchanged. A new CFO joined the company and asked the obvious question - "Why can't the three businesses can't collaborate, cooperate, and combine what they do in IT to reduce the total cost to the company, because we simply can't afford to do everything three times." The CIO's of the business units fought the idea of doing anything together. None wanted cede authority to any of the other business units or to the corporate IT group to share any of their technology services. By using the principles related to achieving IT simplification, consolidation, rationalization, and standardization illustrated in Figure 12, the CFO was able to get the three CIOs to reach some common ground concerning multiple areas where they could cooperate, collaborate, and share, without losing direct control over the technologies and services that were unique to their respective businesses.

Measuring the extent to which cost improvement actions affect IT performance and its overall value to the business is, at best, a difficult process. Typically, IT metrics have focused on operational, technical, and transactional components (such as "uptime," programming productivity or help-desk transactions) and on whether projects are moving forward on time and within budget. Unfortunately, these "shop-floor" type metrics do not, by themselves, get to the heart of what the executive team needs to know about the IT organization and how well the cost reduction initiatives are delivering the desired economies and efficiencies. Relevant metrics that are performance based and improvement oriented help to identify root causes and to drive specific actions and behaviors within the IT organization and between IT and the business units. *Figure 13, IT Performance Metrics Overview*, illustrates how different types of IT performance metrics - operational, management and control, and business value - can all be linked and integrated to serve the multiple needs of a variety of constituencies throughout a company in the most effective manner.

The new North American CIO of a major industrial manufacturing company was given a mandate to improve the overall performance of the 2,500 person IT organization. There had been issues with the deployment of several new technologies and with the ongoing availability of critical 24/7 systems, which was negatively impacting business operations and reflected poorly on the IT organization. The new CIO had suspicions of a disconnect between the performance of the North American IT organization and the metrics established for the worldwide IT organization. The global IT metrics were set using a Balanced Scorecard approach for the entire organization, but there was no real process for tracking performance against these metrics at the local level using any sort of detail. The new CIO's objective was to establish an appropriate level of unity and conformity between the global IT Balanced Scorecard; the North America IT performance dashboard and finally down through the individual IT management performance measures. The CIO needed to understand the link between worldwide and North American IT strategy, and how that link translated into specific measures. The CIO had to know how the existing performance metrics and underlying business processes for collection and reporting were being used, and whether they were effective. He also needed to understand and define how the 'local' North American business and IT plans mapped to the worldwide IT strategy, and how they were measured. Finally, he wanted to understand how metrics could be used to create a culture of accountability. The CIO developed a roadmap identifying how the use of new operational and business-focused metrics could provide the ability to create distinct and unique sets of metrics for different audiences, ensuring that each stakeholder was receiving

the relative information they needed. This enabled the IT team to track its performance consistently over time, and immediately identify areas they may start slipping in performance and quickly take action, especially related to keeping costs in line. It also provided the CIO with the tools and information concerning IT performance necessary to communicate effectively with the executive leadership team.

Figure 13: IT Performance Metrics Overview



Source: "Managing IT as a Business" by Mark D. Lutchén (John Wiley & Sons, 2004)

If IT performance metrics are to have maximum effectiveness, their usefulness must extend beyond the IT organization itself, and follow a number of fundamental principles, including:

- Ensuring that, in addition to operational IT metrics, focus is placed on relevant IT management and control and IT business value metrics
- Placing particular emphasis on the importance of IT business value metrics to ensure that a meaningful dialogue is established between the CIO and other executives and that this dialogue is constructive. Metrics should not be used solely in a punitive manner. Their greater purpose is to achieve improvements
- Applying an integrated approach to IT metrics so that everyone is constantly aware of management's priorities
- Establishing at all levels appropriate ownership of IT metrics and ensuring that they are transparent, directly linked to cost reduction initiatives, and fully communicated across the company on an ongoing basis
- Creating and maintaining a 'culture of accountability' and performance within the IT organization, and between IT and the business.

Potential IT cost reduction actions are then evaluated, prioritized, and initiated as a portfolio of opportunities. *Figure 14, Portfolio of IT Cost Reduction Opportunities*, provides an example of how such a portfolio might be displayed. Different factors associated with each opportunity may be considered when ranking these from a priority of pursuit perspective. Some of the factors might include characteristics such as the following:

- Total size of the IT cost category or of the specific cost reduction opportunity
- Overall difficulty or complexity associated with achieving the reduction
- Speed with which the reduction can be obtained and booked
- Willingness of the 'stakeholders' associated with the opportunity to embrace and drive it
- Number of people in the organization that will be impacted by the changes being contemplated

Figure 14: Portfolio of IT Cost Reduction Opportunities

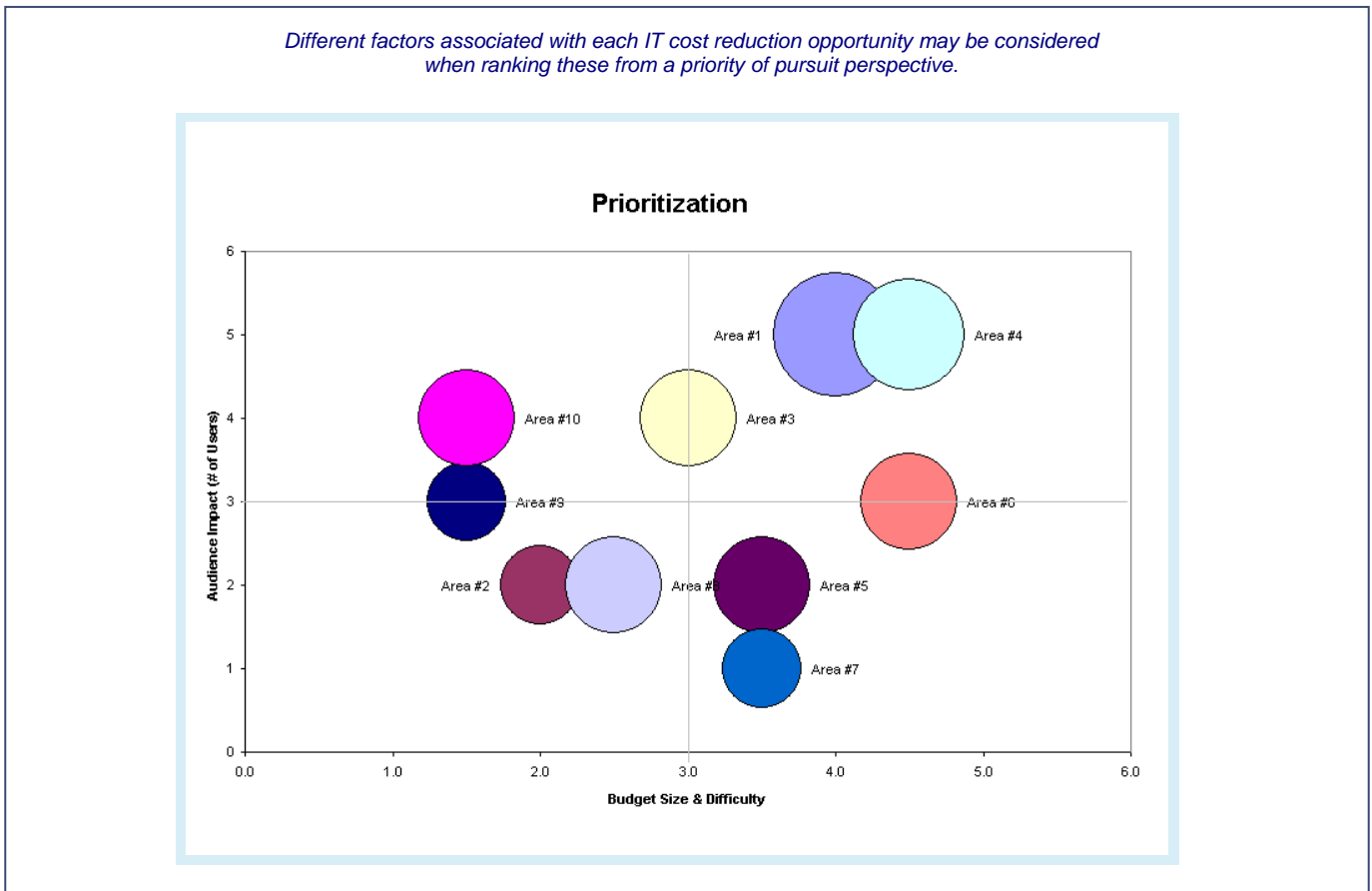
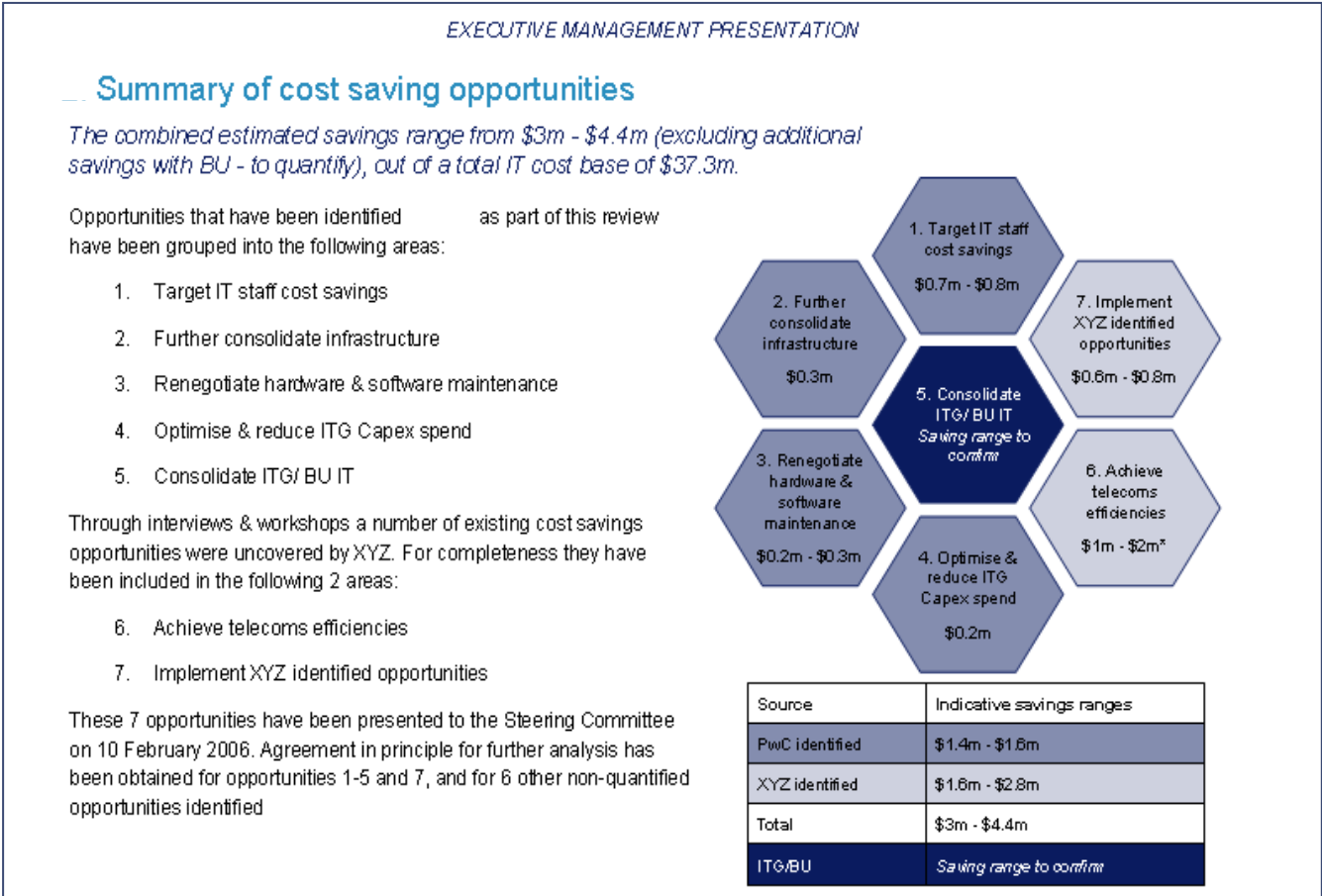


Figure 15, Example of Specific IT Cost Savings Opportunities, provides an example of the types of cost savings opportunities that often are identified and pursued as part of the 'Get' stage of an IT cost reduction effort, including opportunities related to infrastructure consolidation, renegotiation of hardware and software maintenance contracts, staff cost reductions, telecom cost and contract efficiencies, optimization and reduction of IT capital expenditures, and consolidation of multiple decentralized business unit IT capabilities.

A good example of how one company used the portfolio approach to identifying and prioritizing IT cost savings opportunities is that of a large media and entertainment company. The client had a history of failed IT projects with few processes, controls or accountability for investing appropriately in IT. Senior management perceived that too

much had historically been spent on IT with little to show for it. The business units supported by the technology were not engaged in a dialogue about their objectives and the use of IT as an enabler. A new CEO saw technology as an integral part of the business; appointed a new CIO and sought help in understanding the current IT spend and in sorting through the right business developed priorities for IT spending. Management believed there were important opportunities for cost reduction and more effective use of IT resources and assets. The CIO initiated the development of a three-year, business-focused portfolio based IT strategic plan, annual operating plans, and supporting IT management processes. This helped to initiate a dialogue between IT and the business units. Discipline and structure were then applied to the IT management processes necessary to help the business unit leaders to reach agreement on IT priorities and creation of a detailed, pragmatic view of key IT initiatives and objectives. It also led to the development of clear, business-focused action plans for the overall improvement of the effectiveness of the IT organization in fulfilling its mission of supporting the business units. The capital and operating IT plans that were developed reduced IT spend by 27%, while refocusing IT on high impact projects supporting the business. The project also resulted in establishing a series of IT management processes designed to more effectively plan, organize, manage and execute IT spend going forward. It also linked the IT organization more closely with both corporate and divisional executive management goals and objectives, resulting in a 'wiser' IT spend that was considered equitable and appropriate by all parties.

Figure 15: Example of Specific IT Cost Saving Opportunities



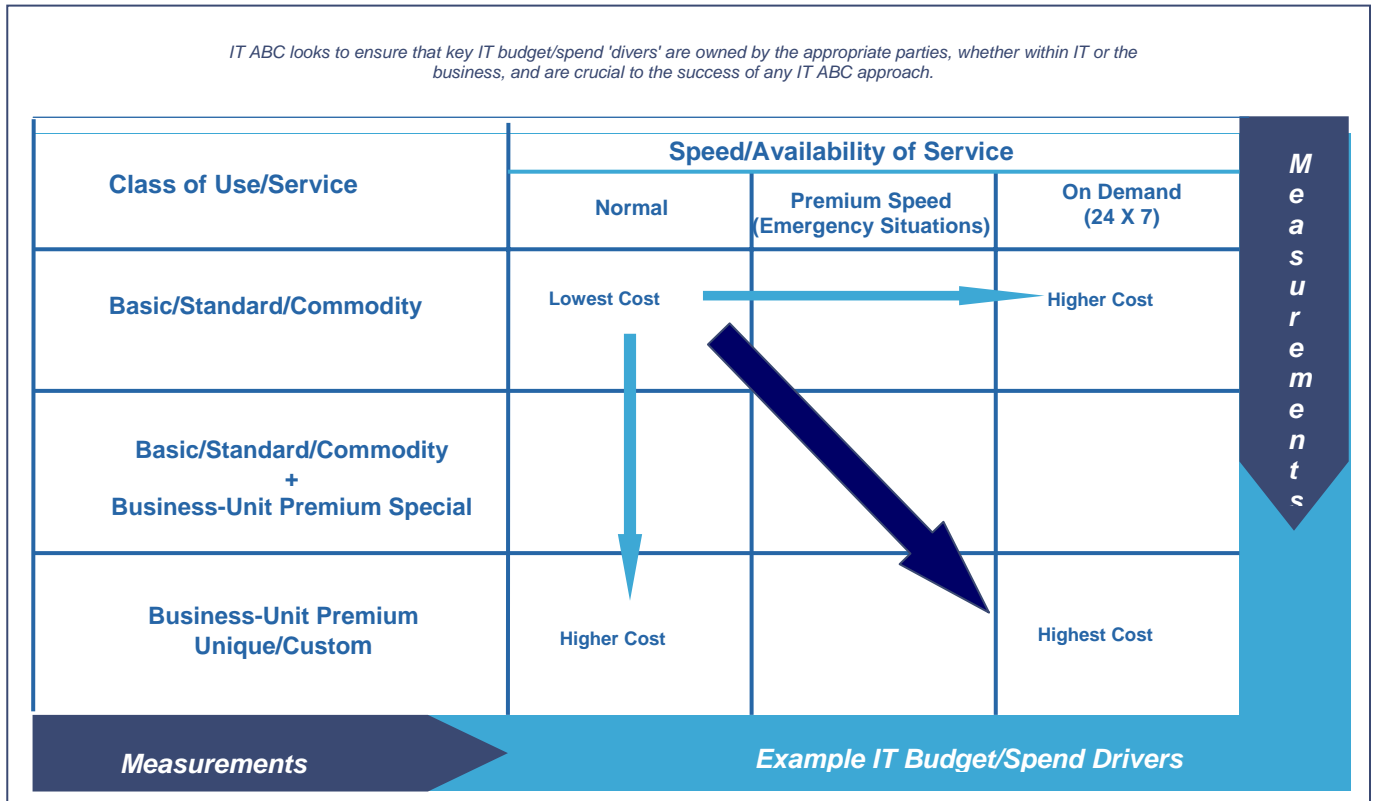
Improvements to the overall IT cost structure can be achieved through changes in both the "supply" (i.e., IT organization) and "demand" (i.e., business) side of IT. "Supply" side changes often include actions such as strengthening vendor contracts, consistent adherence to standards, implementing effective policies, consolidating where possible, implementing new levels of automation within IT and throughout the company, and restructuring the overall IT organization. On the "demand" side, in order to contribute to IT cost reduction initiatives, the business must be prepared to make adjustments and compromises to the scope of services provided by IT, revisions to the service level expectations, and movement towards more of a 'managed' demand approach. IT "Supply" and "Demand" are often managed through the use of a tool called an IT Service Catalog which identifies the key IT services offered, the unit pricing for those services, and the factors that could affect the use of those services, for example, the need for premium levels vs. standard levels of service. However, the fundamental underlying basis for an effective IT Service Catalog is having visibility into the IT cost data necessary to establish fully-loaded unit costs for the purpose of establishing transparent prices to the user community. The Service Catalog is then used to help balance the user "Demand" with the available IT "Supply" in often becomes a prioritization and rationing process. As the prioritized list of opportunities are then pursued, managed, monitored and delivered, including the structural IT changes being implemented, the specific cost reductions must actually be booked and verified. This is the start of the process of establishing a 'culture of accountability' within the IT organization and between IT and the business. This 'culture of accountability' and ownership with respect to IT cost improvement are further enhanced when companies implement IT activity-based costing (ABC) approaches to drive additional behaviors needed for achieving and sustaining IT cost improvements.

IT ABC is based on three fundamental principles:

- Products and services require activities to be performed and it is necessary to determine which products or services it is important to understand and track unit costs.
- Activities consume resources and it is crucial to determine which activities performed actually 'produce' the products or services in question and what the costs are associated with these activities; Activity Drivers are a measure of the consumption of an activity used to determine the portion of the total activity cost assigned to each product or service that uses the activity.
- Resources cost money and it's important to know what the total cost is for these resources. Resource Drivers are a measure of the resources consumed by an activity.

IT ABC supports both strategic and operational cost reduction efforts by focusing attention on "Doing the right things" and "Doing things right." "Doing the right things" addresses the issue of determining which activities need to be performed at all by answering question such as what should the pricing/chargeback mechanisms be, what should the mix of products/services in the portfolio be, and what type of strategic and tactical investments should be made. "Doing things right" addresses efficiency issues by applying methods and approaches such as activity management, process reengineering and lean process development, quality improvement, performance measurement, activity-based budgeting, and activity-based management. IT ABC looks to ensure that key IT budget/spend 'divers' are owned by the appropriate parties; whether within IT or the business, and are crucial to the success of any IT ABC approach. *Figure 16, Overview of IT Activity-Based Costing 'Drivers,'* illustrates the impact that different IT cost drivers can have on how standard and premium IT services are differentiated, priced, and offered within an overall IT Service Portfolio or IT Service Catalog.

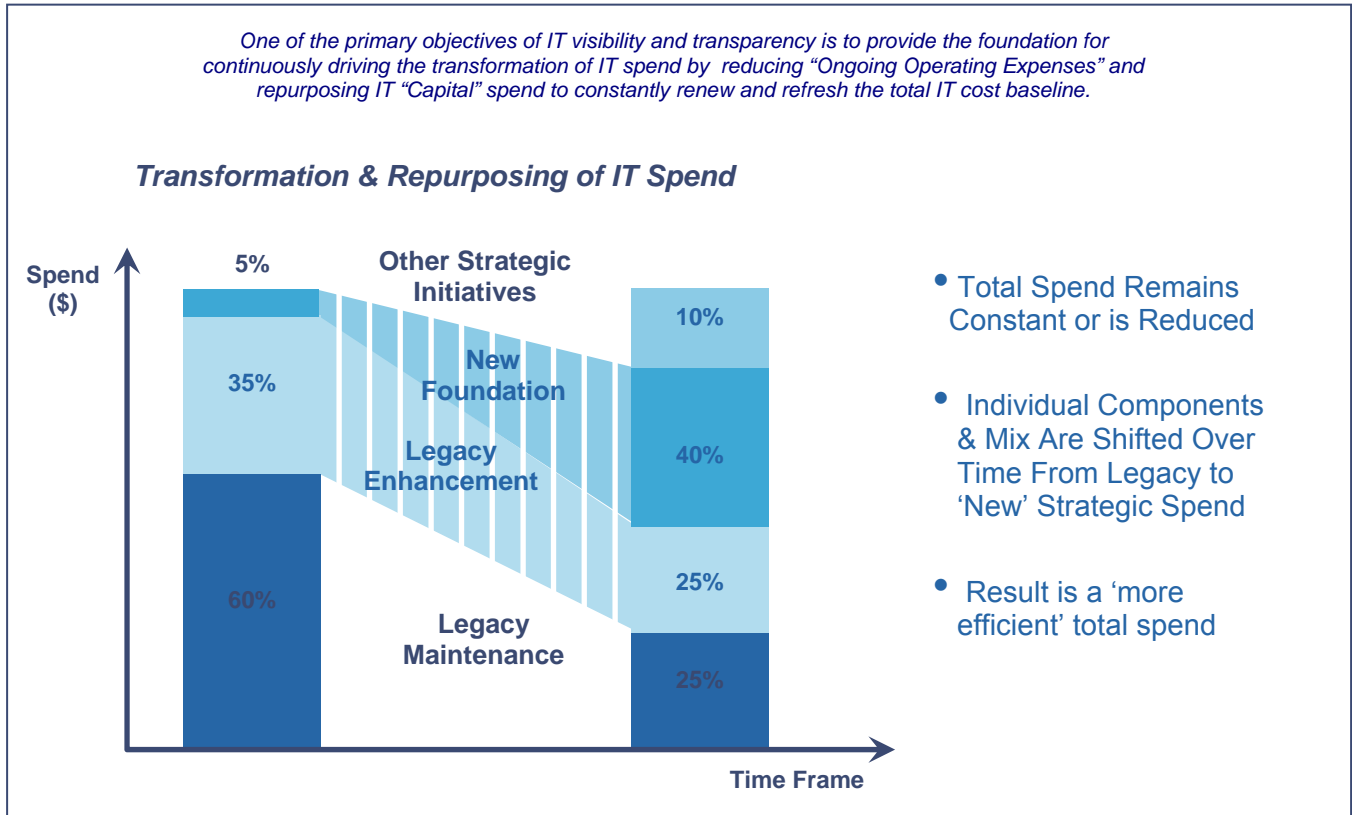
Figure 16: Overview of IT Activity-Based Costing 'Drivers'



A transportation services company utilized the 'Class of Use' and 'Activity-Based Driver' approach illustrated in Figure 16 by creating a detailed IT Service Catalog identifying the different classes of IT service that businesses could request. The Service Catalog outlined the specific service parameters, unit cost information, key cost drivers, and service level agreement (SLA) performance metrics. This catalogue was then used by the IT organization in discussions with the business to establish well-defined, business-owned IT budgets. As new IT services were required or different variations on existing services or service levels were needed, the catalog was updated electronically. In addition, unit cost information was updated periodically to reflect the current realities of the environment. These all flowed directly into updated IT budgets. The end result was a well managed IT Supply/Demand process with a trusted underlying IT unit costing mechanism enabling visibility, transparency, and accountability.

One of the primary objectives of IT visibility and transparency is to provide the foundation for continuously driving the transformation of IT spend and understanding the important correlation and tradeoff between the application of IT capital spending (i.e., new projects) and its potential impact on reducing year-on-year IT operating expenses (i.e., 24X7 maintenance and support expenses for "keeping the wind in the sails"). The extent to which IT capital can be spent to remove legacy infrastructure and applications and infuse and refresh the organization with newer, more cost effective technologies; the more cost efficient the overall IT organization will be. In addition, this approach also provides greater opportunity to constantly and consistently transform 'old' spend into 'new spend' for the purpose of better supporting and enabling the business in the most cost-effective manner over the long term. Figure 17, *IT Capital vs. Operating Expense Tradeoff - Transformation of IT Spend*, highlights the impact that this approach can have on achieving a more efficient overall total IT spend and in culturally shifting the IT organization to one that works more closely with the business and drives full accountability across the company with regard to all IT costs.

Figure 17: IT Capital vs. Operating Expense Trade-Off



An example of how this approach was used to regularly repurpose old legacy IT spend into new, more cost-effective technologies is the health care services company previously discussed that used the portfolio management concept to establish business-focused IT priorities. In doing so, they were able to establish decision criteria that focused on the 'ruthless prioritization' and removal of costs associated with maintaining more expensive older technologies. This allowed them to aggressively curtail spending on items that would not provide the baseline they needed to continue reducing their IT costs over time. Thus, they were able to trade off older legacy technologies and replenish them with newer, more operationally cost effective ones.

With the first two steps in the IT cost reduction process now completed, the immediate and longer-term cost reduction actions should already be driving the removal of unwanted and unnecessary costs from the baseline. Actual tangible benefits should be dropping to the bottom line. But we can't stop there. We need to make sure that we put in place the processes and oversight needed to continually monitor our IT spend, with a view towards "Keeping the Costs" out ensuring that we continue to nurture and evolve a lean, high performing IT organization. This next section focuses on the final step in the IT cost reduction process, "Keeping the Costs," which enables you to sustain the benefits already obtained and to deal effectively with the future in the most cost effective manner.

Keeping the Costs

At this point the IT cost baseline has been developed; the analytics completed; the 'rich targets' of IT cost improvement identified and prioritized, and the initiatives launched to pick off the immediate cost reduction opportunities and begin structurally transforming and streamlining the IT organization. Desired levels of cost reduction have been achieved and plans are in place to ensure that costs are contained going forward. So the next question that must be addressed is how do we put in place the processes, mechanisms, analyses, reporting, tools, and organization to ensure that the cost improvements achieved will be sustained. In addition, we must have the ability in place to easily assess the IT cost structure on a regular basis, to ensure that the unwanted costs don't sneak back in. This stage of the IT cost improvement journey is, perhaps, the most crucial one, because this is where companies make the long-term commitments needed to ensure that the 'Keep' the cost improvements everyone has worked so hard to achieve thus far remain intact.

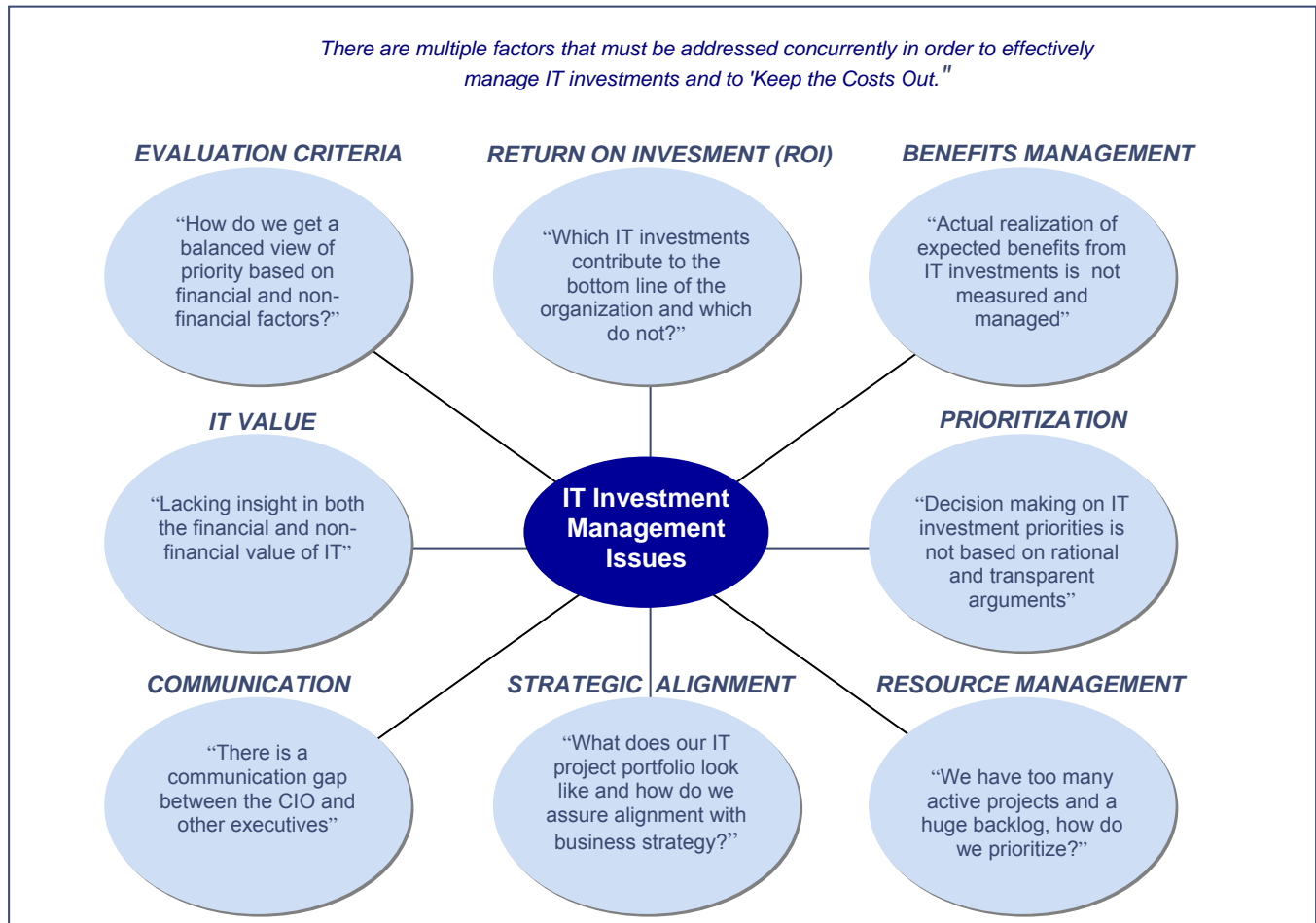
"Keeping the Costs" out and sustaining the improvements already achieved is accomplished by focusing on the following key actions:

- Establishing and maturing a set of enhanced IT cost and performance management and measurement processes that continuously drive increased visibility and transparency, and solidify the 'culture of accountability' within IT and between IT and the business. Key processes that are typically addressed include IT governance/investment portfolio management and prioritization with regard to the overall IT spend (i.e., capital and operating expense); extended IT activity-based costing and chargeback, and fully integrated and cascaded IT performance management metrics and dashboards
- Implementing and using fully integrated, 'industrial strength,' business management tools and systems designed specifically to support the unique requirements associated with the overall management of an IT organization. Generally described as 'ERP for IT Management,' these tools facilitate and enable, shape, and support more effective IT financial, operational and performance management and visibility and transparency of IT spend
- Continuing to evolve the overall maturity of all aspects of the IT Financial Function to ensure that the systems, tools, processes, key information, analytics, organization and skills are keeping pace with the needs of the IT organization and the company, particularly with regard to providing appropriate visibility and transparency of IT spend, assets, and performance
- Developing the right organization structure and overall culture within the IT organization that ensures appropriate ongoing ownership and accountability with regard to the management of IT costs

As illustrated in *Figure 18, Critical Issues in Managing IT Investments*, there are multiple factors that must be addressed concurrently in order to effectively manage IT investments and to 'Keep the Costs Out.' These issues include:

- Establishing appropriate investment evaluation and decision criteria
- Creating necessary Return on Investment (ROI) or value-based approaches and rules
- Instituting benefits management processes to ensure that results are actually achieved
- Focusing attention on long-term IT value to the business in addition to the traditional short-term levers of costs and benefits
- Ensuring that decision making regarding IT prioritization is based on rational, transparent arguments and facts
- Removing the communication gap that often exists between IT and the business and between the CIO and other business executives
- Understanding the strategic impact and implications of any IT action taken
- Balancing the desired needs and projects with the reality of available monetary and human resources to effectively complete these efforts.

Figure 18: Critical Issues in Managing IT Investments



Achieving effective IT governance/investment portfolio management and prioritization requires creating IT-business unit alignment and customer account management, establishing key processes related to determining and reviewing core priorities, and facilitating the flow of critical IT spend and performance information through the use of an integrated set of IT investment portfolio management tools. The key objectives of IT governance/investment portfolio management/prioritization include ensuring that:

- IT is fully aligned with the organization's business objectives
- IT accountability and ownership are clearly and appropriately defined throughout the organization
- Total IT spend is fully understood and that the focus is constantly on transforming 'old' spend into 'new' spend on building the future
- The resources supporting the organization's IT capabilities are allocated, scheduled, coordinated, and optimized in a flexible manner that best supports the achievement of the organization's business objectives.
- IT-related business risks are identified and addressed, either through risk mitigation, elimination, transfer or acceptance
- IT performance is constantly monitored and that means of improving IT performance are identified and addressed as a regular part of business and IT operations.

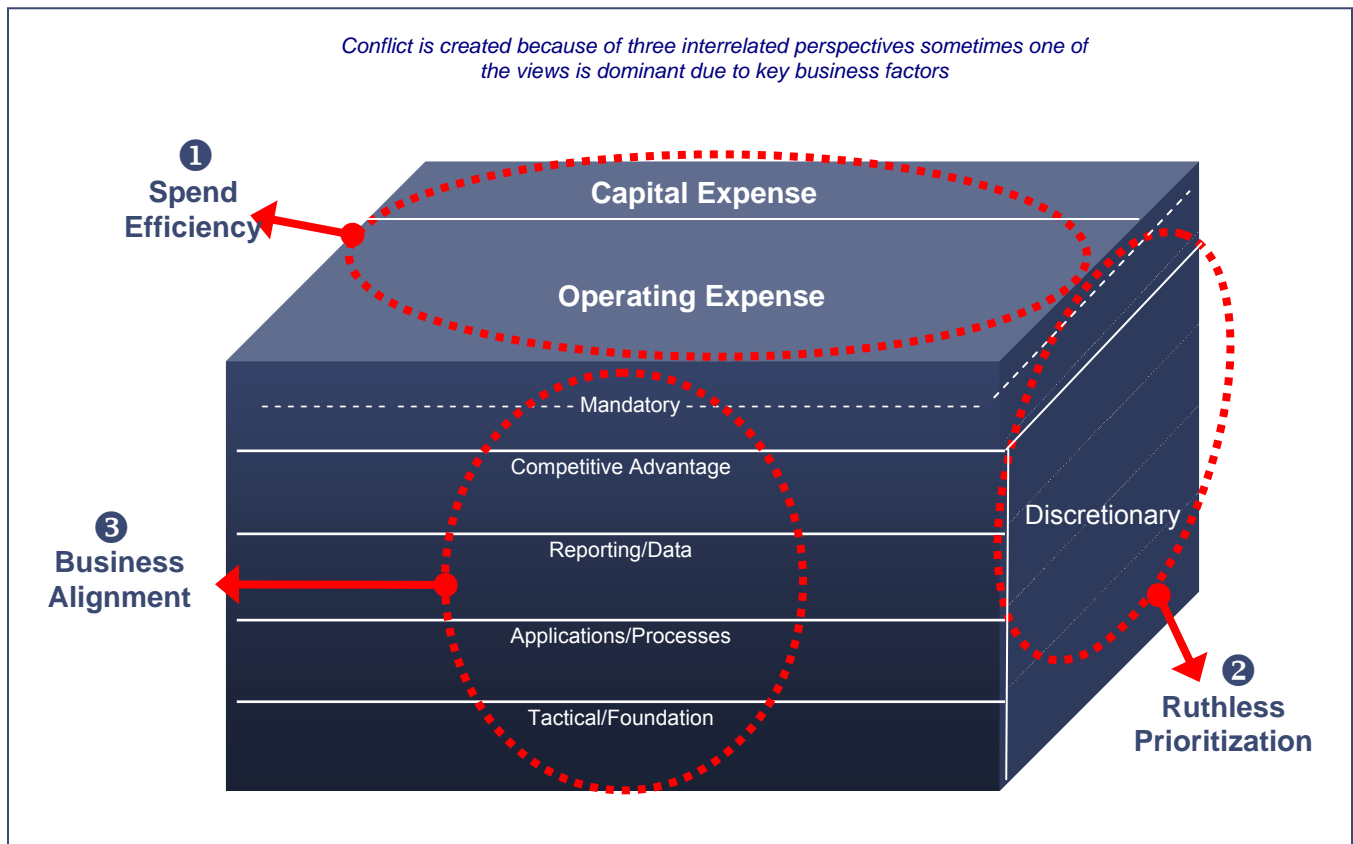
Figure 19, *Primary Views of IT Investment Decisions*, provides an overview of the three primary views associated with IT governance/investment portfolio management/prioritization decisions. Conflict is created during the process because the three interrelated perspectives are not always consistent with each other. Decisions are often made because one of the views becomes more dominant than the others due to key business factors. The three primary views are as follows:

- **Spend Efficiency View** - This view focuses on how the investment impacts the ongoing cost of the existing infrastructure and application portfolio. Some key questions that need to be answered relative to this view are whether investments are being made:
 - To being made to an aging portfolio that will continue to become more costly to maintain?
 - To being made to restructure the portfolio and drive longer-term maintenance costs down?
 - To being made in new technologies to impact the existing ongoing operating cost base?

- **Ruthless Prioritization View** - This view addresses the need to prioritize IT spend to ensure that it is directed to the areas of highest return. The first step in this process is to identify and remove the 'mandatory spend' from consideration, since mandatory items (i.e., regulatory, legal, survival) require no further prioritization analysis. The remaining 'discretionary spend' items are the ones that must then be further evaluated against a set of stringent threshold criteria designed to eliminate the ones with the least opportunity for return in a reasonable timeframe.

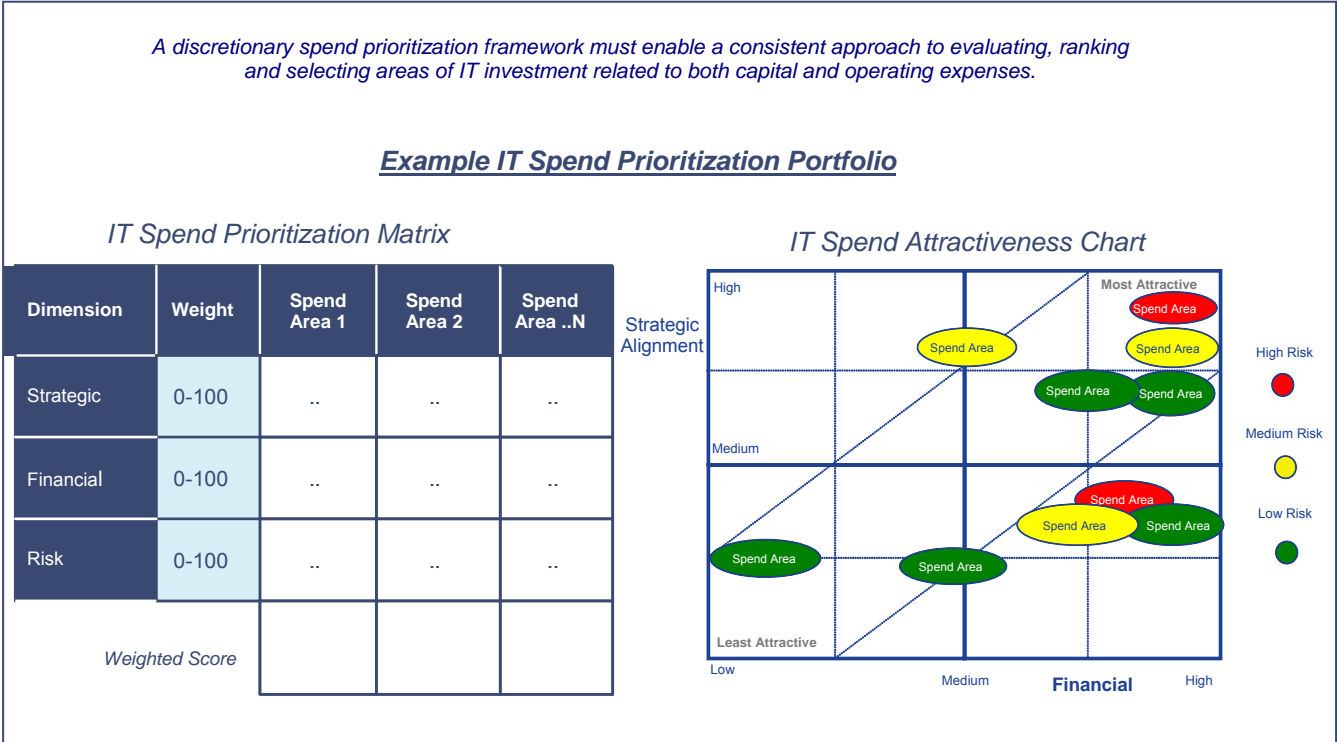
- **Business Alignment View** - This view reflects how the organization, as a whole, prioritizes its overall business discretionary spend to ensure that the IT discretionary spend is, in fact, in alignment with key business objectives, goals, and priorities. This view represents the manner in which a business unit of a company might look at things.

Figure 19: Primary Views of IT Investment Decisions



IT governance/investment portfolio management/prioritization is a dynamic process, not a 'point-in-time event,' and is driven by business strategy, where the "Total IT Spend" (i.e., capital spend and ongoing operating expenses), not simply new projects, are fully considered. Adopting a 'Portfolio' approach to analyzing the spend, risks, and impact across multiple axes is crucial to achieving a fully balanced view of IT investment decisions. Very often a 'Ruthless Prioritization" perspective is adopted when making IT investment decisions to ensure that all discretionary capital and operating expenses are evaluated and selected on a consistent set of criteria that reflect the need to ration resources due to funding limitations. *Figure 20, IT Spend Prioritization Portfolio*, provides an example of how an IT discretionary spend prioritization framework can enable a consistent approach to evaluating, ranking and selecting areas of IT investment related to both capital and operating expenses.

Figure 20: IT Spend Prioritization Portfolio

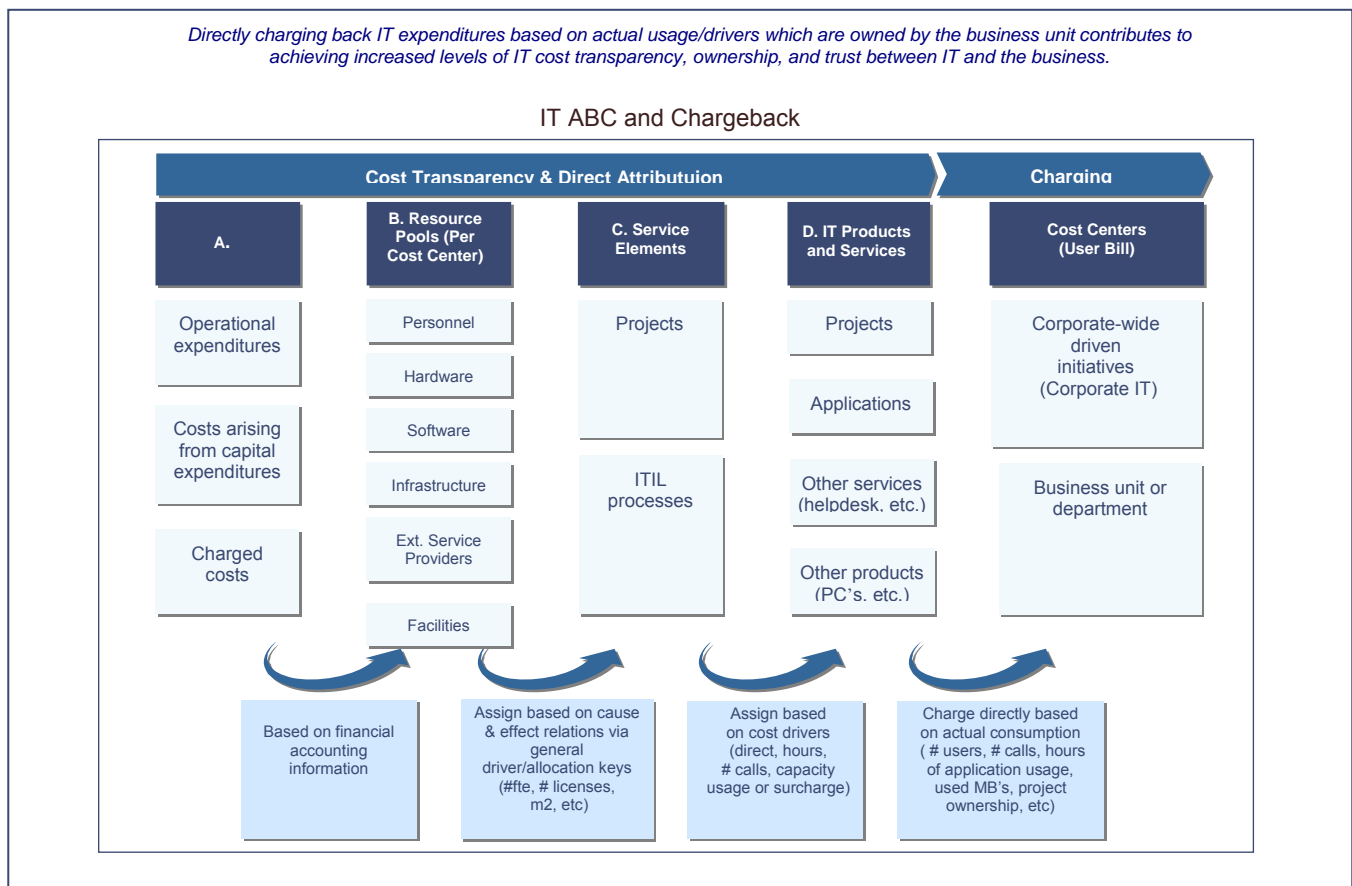


One of the most successful uses by an organization of the integrated use of the principles illustrated in Figures 18, 19, and 20 is by a global technology services company during their acquisition of a number of regional and local entities. The global CIO of the technology services company utilized an IT integration philosophy and approach that addressed each of the IT Investment Issues identified in Figure 18. IT integration plans were pre-defined to ensure that criteria were established incorporating approaches to overcome each of the issues. These were then modified and tailored to reflect the specific nature of each acquisition. As the IT integration plans were established, each view of the IT Investment Decision Process illustrated in Figure 19 - Spend Efficiency View, Business Alignment View, and Ruthless Prioritization View - were all considered. This forced a complete re-thinking of the existing IT situation at both the acquiring company and the one being acquired. The end result was the development of a criteria-based, fully weighted IT Spend Prioritization Matrix and IT Spend Attractiveness Chart. This effort essentially simulated the well-developed IT budgeting and prioritization process the company used on a regular basis, which was focused on driving in IT cost improvements on an ongoing basis.

A second approach that is often used by world class organizations to maintain visibility and transparency with regard to immediate and ongoing IT cost reduction initiatives is that of IT Activity-Based Costing and Chargeback. Approaches to IT activity-based costing have already been discussed in the 'Get' stage of IT cost reduction. However, many companies move to a more advanced stage of visibility and transparency by directly charging IT costs back to individual business units. This strategy is based on appropriate and viable measures of actual consumption, rather than by using arbitrary, and often misinterpreted, general allocation methodologies. *Figure 21, IT Chargeback and Accountability*, illustrates how achieving IT cost transparency contributes to directly charging back IT expenditures based on actual usage/drivers which are owned by the business unit. Some of the more important characteristics of successful IT ABC-Chargeback approaches include the following:

- The use of simple, transparent cost assignment processes and sources of charges
- Periodic activity-based costing-type analyses to determine what drives corporate overhead costs and to determine the true cost and profitability of IT services provided to customers
- Costs assigned only to business units/cost centers or directly to the services with limited re-allocation of costs
- Automated cost assignment reports that allow service providers to determine and benchmark costs against other alternatives (e.g., outsourcing, off-shoring) and show which business units are impacting costs the most
- Direct linkage between charged back IT costs and overall company-wide financial systems to accurately book the costs
- Formal Service Level Agreements (SLA's) and a balanced scorecard report to measure and report the service centers' performance against commitments made to the business units
- Alignment of the level of detail utilized for chargebacks with relevant effectiveness measures
- Periodic analysis and reporting of variances, root causes, and corrective actions to be taken to keep the IT spend and key performance levels in line with budgeted and expected amounts

Figure 21: IT Chargeback and Accountability



There are a number of common models utilized by different companies to charge back IT costs to individual business units. Each model has its own strengths and weaknesses. Very often, a hybrid of multiple IT chargeback models is used to provide the most realistic picture of what a business unit is actually spending on IT. The most prominent models in use include service-based pricing, including standard and premium usage models; flat rate models; measured resource consumption models; actual direct cost models, and allocation-based models. Many IT organizations use allocation-based or flat-rate models as a catch-all for cost areas that they often deem to be too difficult to understand or to collect appropriate information with regard to actual consumption or key drivers. However, allocation and flat-rate approaches are also most often viewed by business units as lacking fairness, because lighter users of a service tend to subsidize the heavier users. In addition, changes in workload are not recognized immediately or directly when services are bundled together and then allocated. Allocation-based and flat-rate models tend to impose limited constraints on demand, so total service delivery costs often increase and trust between IT and the business suffers.

More sophisticated chargeback models such as service-based pricing, measured resource consumptions and direct costing requires that the IT organization have in place the necessary processes, disciplines, and high quality/high integrity information flow necessary to clearly show visibility and transparency to the business units. Processes and disciplines such as project management; risk management and estimation techniques; working contingency models; service catalogs; tight workflow processes; market price comparisons and service level agreements all must be implemented and working effectively to ensure that these chargeback models will function appropriately and be trusted by the business.

Moving up the 'food chain' to the use of more sophisticated chargeback models and approaches requires considerably more mature disciplines and processes, and increased levels of data quality, integrity, and trust. A water services company had allowed its IT cost allocation and chargeback model to become overly complex; resulting in the use of over 75 types of allocation approaches and drivers. The sheer 'weight' of the mechanics and calculations required to apply so many unique allocation approaches created an inability to provide real transparency across the most important IT cost components, and was causing a lack of trust between IT and the business units. To simplify their overall chargeback approach, the company decided to simplify the allocations by forcing all of the top cost components to be allocated by only 20 meaningful drivers, with the remaining large number of cost items (but small in \$ value) were forced into a single simplified category; allocated by a generally accepted driver such as headcount or transaction volume. By simplifying things in this manner, the IT chargeback system became easier to use and far more trusted by the business units and enabled them to better understand their IT spend and how they could manage it.

A third critical approach used by world class companies in the 'Keeping the Costs' stage of an IT cost reduction initiative involves the implementation and use of a variety of different types of IT management/measurement dashboards. Two of the more prominent types of dash boarding include the IT Balanced Scorecard and the Cascaded IT Management/Measurement Dashboard.

The IT Balanced Scorecard is a framework used by organizations to achieve higher levels of performance. It influences organization behavior and supports communications to stakeholders through agreed-upon measures. *Figure 22, IT Management & Measurement Dashboards – Balanced Scorecard*, provides an illustrative example of the components/measurements that might typically be included. Most times, the measures included within the

IT Balanced Scorecards are directly linked up to the broader Balanced Scorecards in use at the corporate and business unit level. A criticism of the IT Balanced Scorecard is that it does not provide a sufficiently granular view of key items to enable rapid identification and action within the specific IT area, but rather, is more often used for compensation purposes and, therefore, lacks operational viability for day-to-day IT cost management purposes.

Figure 22: IT Management & Measurement Dashboards – Balanced Scorecard

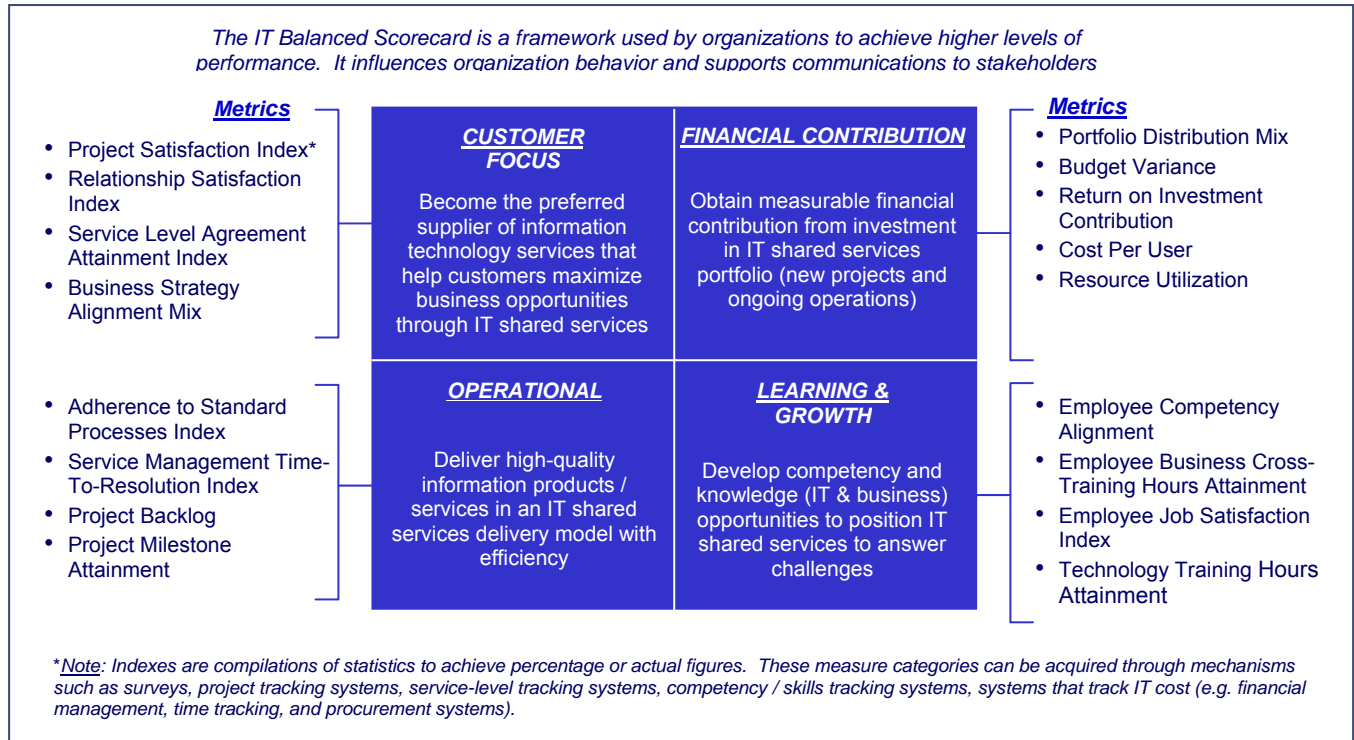
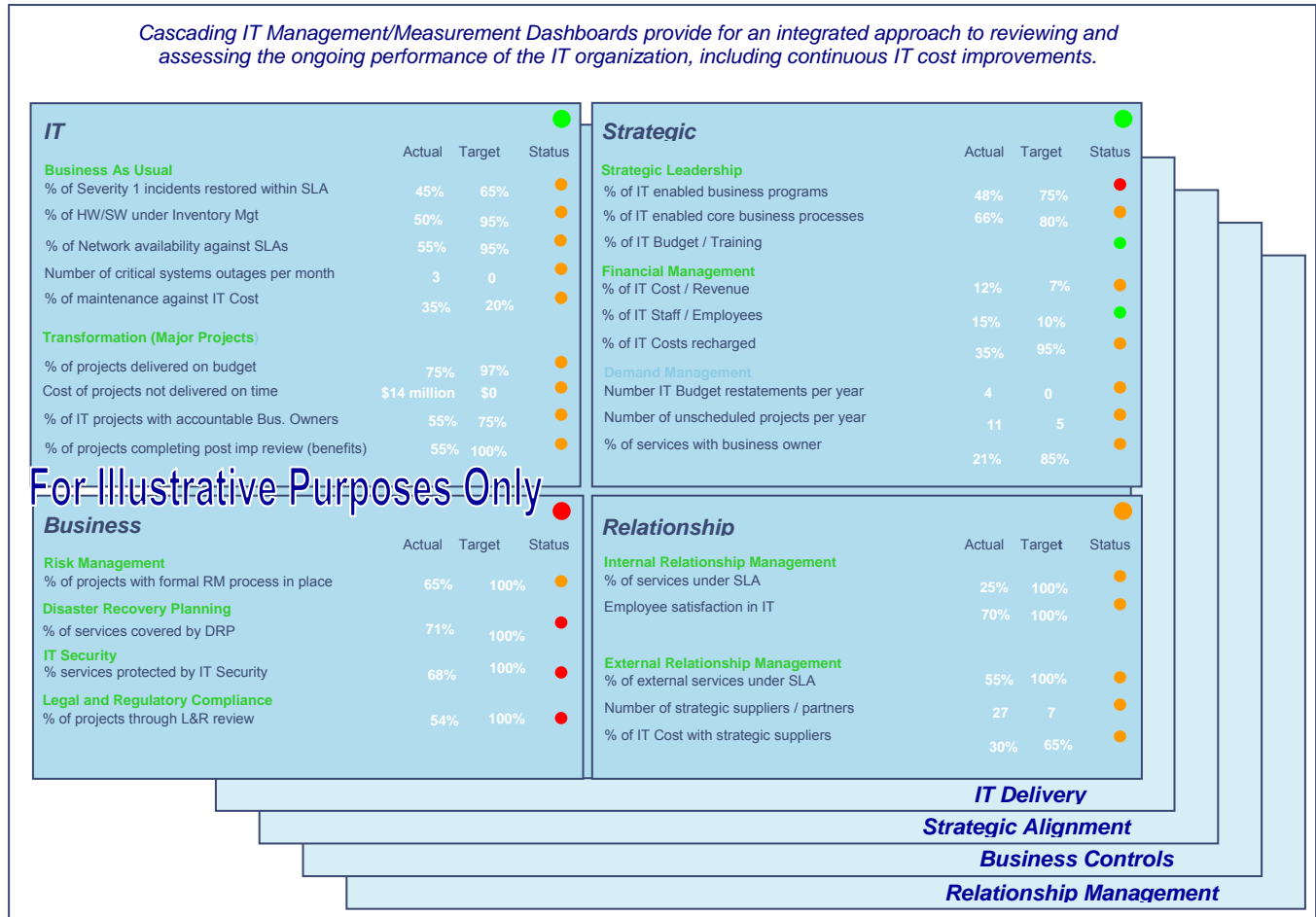


Figure 23, IT Management & Measurement Dashboards – Cascaded Dashboards, provides an example of a more operationally oriented set of integrated and linked dashboards that provide real-time information regarding critical IT service delivery and business unit consumption performance metrics. Because of the granularity often achieved with these types of dashboard, they typically provided the kind of detailed visibility and transparency often desired by both IT and the business units to achieve a more collaborative approach to addressing IT cost management issues in an ongoing and fact-based manner. Cascading IT Management/Measurement Dashboards provide for an integrated approach to reviewing and assessing the ongoing performance of the IT organization, including continuous IT cost improvements.

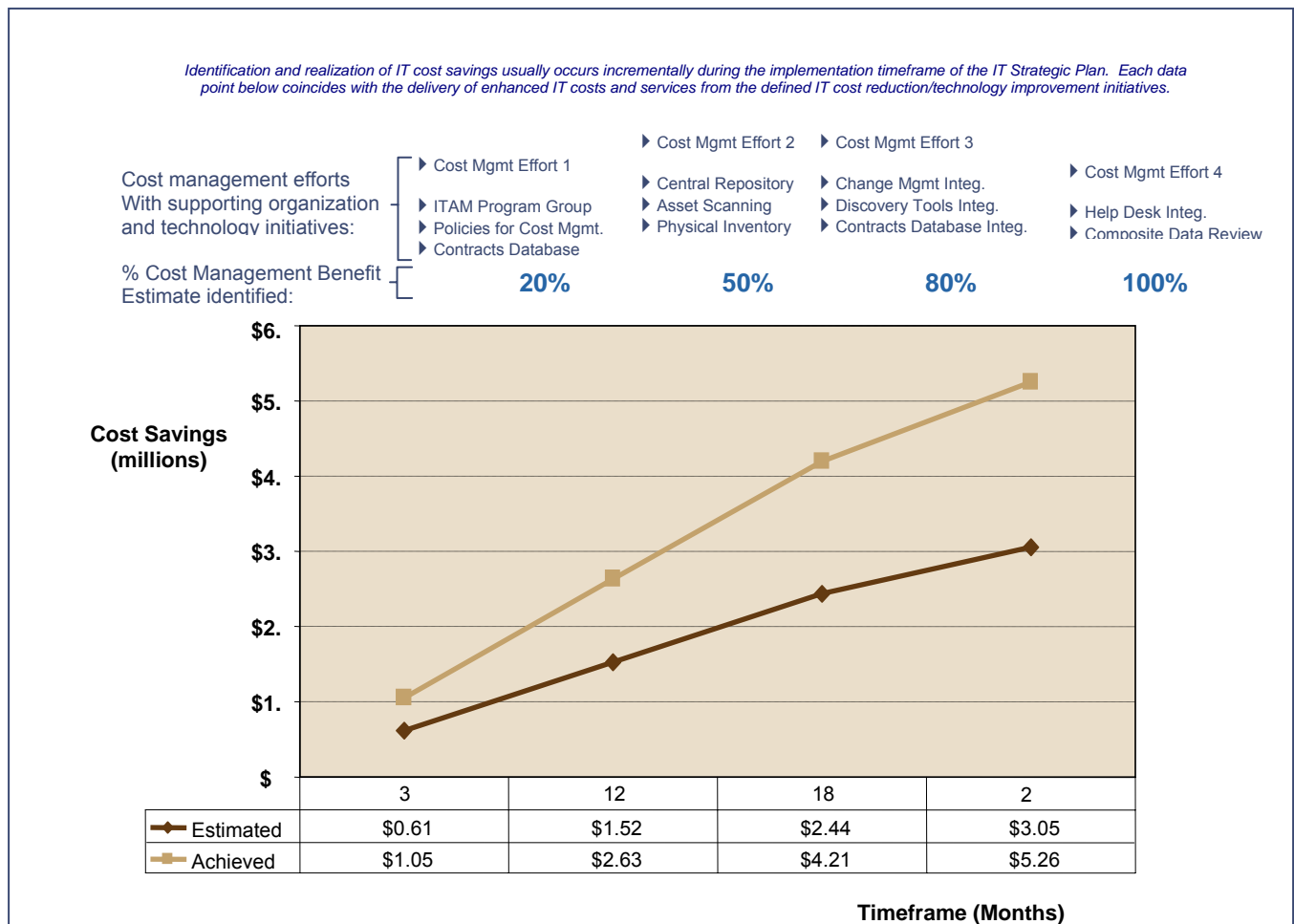
Figure 23: IT Management & Measurement Dashboards – Cascaded Dashboards



One particularly innovative CIO used of the types of IT Management Dashboards illustrated in Figures 22 and 23 by establishing a series of simple, but focused and integrated IT Metrics associated with the overall 'cradle-to-grave' PC provisioning process. This process involved the use of a number of outside third party service providers. The dashboards were designed to examine certain key metrics at the 'handoff' points between the different vendors and the functional groups within the company. The entire process was made even more transparent because all of the metrics and dashboards were made available to all of the participating parties. An overall Balanced Scorecard was established for the entire PC provisioning process, but individual cascaded and integrated dashboards were created for each vendor and each functional unit within company (i.e., IT, Finance, HR, etc.) that was involved in the process in some manner. The objective of openly sharing the dashboards and metrics was to ensure that everyone involved understood the dependencies that existed and had to function well in order for the overall process to be successful. With the overall balanced Scorecard sitting on top of the functional dashboards, a comprehensive 'report card' could be provided to the entire group of organizations and people needed to make the overall process successful.

Achieving continuous improvement with regard to IT cost management/cost reduction requires that the processes, disciplines, information, and reporting necessary to track and measure the actual cost saving achieved over multi-year periods. *Figure 24, Continuous Improvement - IT Cost Benefits Realization*, provides an example of how more sophisticated IT organizations and world class companies directly link the delivery of enhanced, lower cost IT hardware, infrastructure, applications, processes, and services to the actual 'booked benefits/savings' to the organization as a whole.

Figure 24: Continuous Improvement - IT Cost Benefits Realization



As the focus on IT cost reduction within an organization evolves and matures into an ongoing process over time rather than just a single event at a point in time, formalizing the visibility of the benefits realization process becomes increasingly important. The CIO together with the CFO at a large industrial products manufacturer instituted a very simple benefits realization process for new IT projects and new IT initiatives that involved a number of components. The first component was that a 'house rule' was established making sure that no IT-related effort would be funded for more than a three-four month period. Therefore, every large IT project or initiative had to be broken down in three to four month increments, costed out for that period, and specific benefits identified to be achieved during that same period. The logic used by the CIO and CFO in this situation was that IT and the business units involved in the effort could not accomplish the modest benefits associated with a three

to four month interval, they could certainly not deliver the benefits on a project that might span several years. This approach became very successful for the company and drove the kind of 'culture of accountability' they were seeking related to their IT spend. One of the reasons why IT worked so well was because it was very clear, simple to use, and provided immediate benefits. For example, some projects were cancelled at a very early stage because they were shown to not be able to deliver benefits along the way, while other projects that might have not gotten off the ground were given an opportunity to demonstrate the results they could generate in the short-term. If they passed this test they could continue.

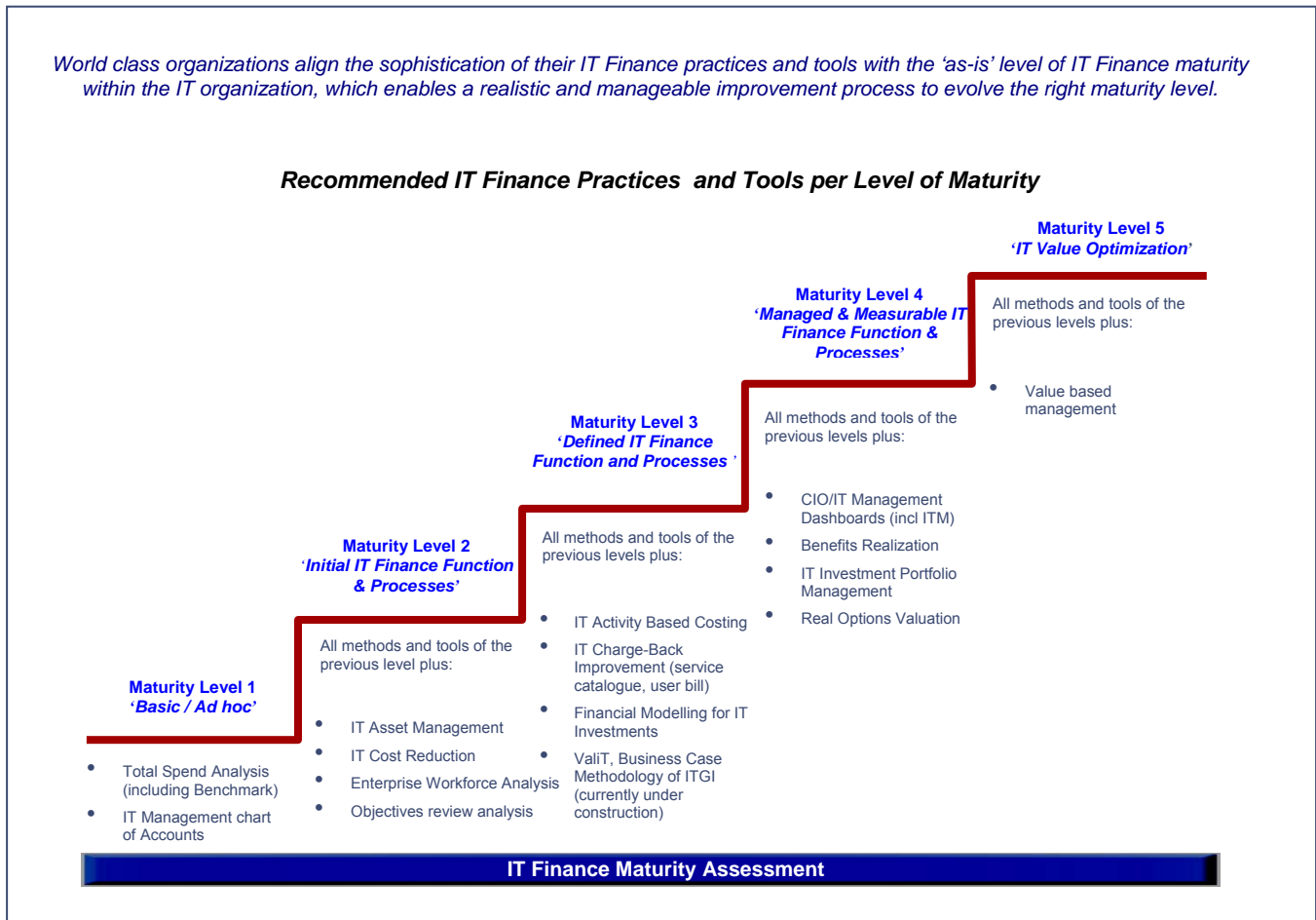
An additional crucial component of sustainable IT cost reduction that must be implemented during the 'Keep' stage is that of what we would describe as 'industrial strength' IT cost collection, analysis, and reporting tools. Too many CIOs and organizations believe they can accomplish level of data capture, information structuring, analytics, and reporting with the appropriate level of rigor, integrity, and quality through the use of a series of relatively unstructured and uncontrolled spread sheets. World class IT organizations understand the importance of having in place a set of integrated tools that can collect, organize, store, analyze, and report out on key IT spend and performance information for the purpose of continually identifying, assessing, and implementing key cost improvement opportunities. The state of the marketplace today is such that certain vendors have, in fact, built fully integrated 'ERP for IT' tools that focus on these issues from the CIO and CFO perspectives.

The level of maturity with regard to an organization's IT Financial Function is something that must continue to evolve to meet the demands of the IT organization and the company, as a whole. Achieving the right level of IT Financial Function maturity is critical to achieving the type and level of IT cost improvement desired. *Figure 25, IT Financial Function Maturity Model*, provides an overview of the specific key practices, approaches, and tools that are generally recommended based on the overall level of maturity the IT Finance Function is at. World class organizations align the sophistication of their IT Finance practices and tools with the 'as-is' level of IT Finance maturity within the IT organization, which enables a realistic and manageable improvement process to evolve the right maturity level. Typically, a direct correlation can be found between the ability of an IT organization to achieve 'transformation' levels of IT cost improvement and a higher level of IT Financial Function maturity. Less mature IT Financial Functions do not have the processes, disciplines, tools, information, and over skills and capabilities necessary to contribute effectively towards and to substantially enable short and longer-term IT cost reduction/improvement efforts.

The newly appointed CFO of IT at large financial services company had been given a mandate by the CIO and CFO to improve the key IT finance processes for the purpose of increasing the visibility of IT costs from both a supply and demand perspective. The reason for this was that the lack of transparency related to IT spend that existed was making it extremely difficult for the business units to understand and manage their consumption of IT services and to manage their IT costs. The problem only became more severe as the profitability of the company began to decline and greater pressure was being placed on 'high spend' areas, such as IT, to streamline their organizations and deliver greater savings to the company. The CFO of IT embarked on an effort to examine five critical IT finance processes, including planning and budgeting, reporting and analysis, cost accounting and chargeback, asset management, and project financial management. All of these were reviewed in the context of their existing maturity levels as compared with where a world class IT finance function would be operating. A type of IT finance function maturity model was used for the purpose of determining the level of maturity in each of the five designated processes that was appropriate to achieve the desired results. The overall objective was to align business unit consumption of IT services with the actual need and to ensure the right level of IT finance support

was in place to make this happen in the most cost-effective manner. What the CFO of IT learned was that most of the IT finance processes were very informal; lacking the rigor and discipline necessary to keep pace with the world class service levels and world class IT capabilities the business units were demanding. Improving the maturity levels of these key processes enabled the company to drive a series of continuous improvement programs related to IT, resulting in the ongoing standardization, consolidation, and rationalization of key IT functions and operations. In the end, the ability to enhance and mature these IT finance processes drove significant IT cost savings and broader benefits into the business.

Figure 25: IT Financial Function Maturity Model



When taken as an integrated whole, the combination of processes, tools, information, and capabilities necessary to achieve **rapid, radical**, and **sustainable** IT cost reduction must also result in achieving deep-rooted and lasting cultural change within IT and between IT as the business. This cultural change - a shift towards a 'culture of accountability' - is crucial to achieving sustainable, long-term, and continuous IT sustainable cost reduction. CIO's that recognize this will arm themselves with the powerful tools necessary to establish the right mindset within IT and between IT and the business for achieving at high performing, optima cost level. Making this happen within IT often requires restructuring the overall IT organization and implementing a skills and competencies-based IT career model designed to enhance the entire group's collective IT cost management capability to the point where it becomes a normal, ongoing process over time; rather than an occasional one-off event at a particularly distressed time.

So, now all of the key steps in the IT cost reduction process have been executed. The costs have been identified, analyzed, and prioritized. Short-term opportunities have been taken and costs driven out. Longer-term cost reduction actions have been initiated and the ongoing processes to keep these costs out have been put in place. What's left to do? Keep on honing and evolving your IT cost reduction activities, because job of achieving IT cost improvement never ends!

Closing

IT has become and will continue to remain one of the largest spend categories for large corporations and the effective use of technology is integral to mere survival in today's business world. But, because it is such a large number, that does not mean that IT can't be managed in a cost-effective manner, similar to other parts of a business. Given today's economic challenges, IT costs are being scrutinized to achieve immediate savings, but to also lay the foundation for the efficient and cost-effective use of technology in the future. Hopefully, this **IT Cost Reduction Playbook** has provided you with a practical, step-by-step guide for achieving **rapid, radical** and **sustainable** IT cost improvements. Identifying and delivering both short and long-term IT cost reduction opportunities is not a 'one size fits all' effort. However, the tried and true approaches and techniques discussed in this Playbook should provide a starting point for delivering real and sustainable IT cost improvements and it's never too late to do so.

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