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Transformative IT cost strategies for hard times

By Frank B. Modruson and Gary A. Curtis

For most CIOs, the usual pattern during economic downturns is to slash budgets and focus available spending and resources on maintaining availability, security and application functionality. But that's not how the high performers do it.

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Talk about two different worlds . . .

In one world, more than a few chief information officers have been compelled to chop large percentages from their IT budgets this year. Some CIOs at telecommunications and high-technology companies, for example, have lost as much as 20 percent to 30 percent from their budgets. One of the investment categories hit hardest: discretionary IT projects—including those that will almost certainly affect a company's competitiveness several years out.

In the other world, the same recessionary pressures prevail. But for these CIOs, business value always comes first, along with the imperative to prepare their organizations for growth when the recovery comes. Many of them are increasing their investments in initiatives that will create value in key areas of the business—analytics for customer segmentation and supply chain efficiency, for example, or network upgrades that they fund out of gains in network operating efficiencies.

Indeed, one of these CIOs reports that his fellow executives are actually pushing him to invest more in capabilities that will not only save business costs but will also enable broader operating efficiencies and act as a lever for business innovation. "That's a wonderful place to be," he says. "It's doubly wonderful when you're in a recession."

On one side, the traditional response: CIOs hunkering down, reining in, girding for the worst until the downturn is well and truly over. On the other side, the transformation-minded response: CIOs guided not by across-the-board mandates to slash costs but by the opportunity to make lemonade out of lemons.

Unfortunately, there are many more traditionalists than trans-

formers. And this preponderance of defensive CIOs does not bode well for the fortunes of their companies.

Innovation at risk

Innovation is already taking a hit. Nearly half of the information chiefs polled earlier this year by *CIO* magazine said the percentage of their IT budgets allocated to new projects would be cut. Almost half had already begun freezing or canceling IT capital spending. Put simply, not only will those CIOs be poorly positioned to support business needs in growing markets, their ability to support the business overall may be compromised.

The fact that gets forgotten is that IT projects have gestation times usually measured in years. Deferring investments, even if later spending is larger, will simply delay the positive impact. Operational savings generated by such investments, for example, can take three or four years to appear, regardless of when the spending occurs. As with home repairs, catching up on deferred spending is impractical, harder to do cost-effectively and generally far more expensive than ongoing upgrades would have been.

In April, at our Global CIO Council Forum 2009 in Palo Alto, California, Accenture hosted a panel discussion with CIOs Rebecca Jacoby of Cisco Systems and Karenann Terrell of health care company Baxter International. The discussion focused on avoiding what we've called the IT austerity trap and on developing strategies for sustainable cost reduction.

The forum offered a sharp reminder of the value of common sense and clear-eyed perspective. It served to reiterate the long-term dangers of "lawnmower" cost cutting that can result from mandates for across-the-board percentage cuts.

Combing the dog

At Accenture, the process of regularly looking for ways to take costs out of IT operations is known as “combing the dog.” It’s a process that never ends.

It is fair to say that the dog has been well and truly combed thus far. From 2001 to now, Accenture has more than doubled its annual revenue and expanded its number of employees by nearly 150 percent. But IT costs as a percentage of revenue have been more than halved, and IT spending per person in dollars has dropped by 60 percent.

In other words, absolute IT costs are lower today than they were eight years ago, with notable—and measurable—increases in the quality of IT services and in employee satisfaction with these services.

One good example of dog combing is Accenture’s network transformation program—effectively the frequent replacement of the global voice and data network. The IT group reworked

the company’s network in 2001. In 2005, it was clear that there was sufficient business benefit to replacing the entire network, with the investment funded by the decreased costs of network operation.

In this case, the company integrated voice and data onto a single infrastructure and significantly reduced network costs; the revamped network provides the best geographic coverage at competitive rates. At the same time, the new design has easily accommodated newer collaboration technologies.

Accenture was able to introduce Cisco TelePresence installations throughout the company—spending money to save money. The installations are saving three to four times the total costs of operating the TelePresence system each year, largely thanks to reduced travel costs. And the technology-facilitated collaboration across Accenture’s many offices enables rich visual conferencing with customers that also use the system.

It emphasized the value of continually driving down operating costs while protecting IT investments and focusing them on supporting business initiatives. And it confirmed that saving money often means investing money first.

The discussion also brought to light a variety of initiatives that transformative CIOs are putting into play in the teeth of the recession—initiatives that not only generate new business efficiencies and energize growth but that reshape the nature of the dialogue between IT and the business, particularly around costs (see sidebar, page 5). Finally, it illuminated the “whole company” mindsets of leading CIOs, confirming that they approach their roles strategically, in full alignment with the direction of the business and irrespective of whether they report to the chief executive, the chief operating officer or the head of finance.

Timing the change

According to Cisco’s Jacoby, recessionary times are ideal for elevating the role of IT. “Any CIO who doesn’t

take advantage of this environment to clean up IT,” she says, “is missing a big, big opportunity.” During a downturn, argues Jacoby, CIOs are freer to drive improvements and upgrades that in healthier times would be the subjects of lengthy debate.

Baxter CIO Terrell concurs, joking that whenever her CEO asks how much more “low-hanging fruit” there is in the company’s IT costs, she tells him she is still “kicking pumpkins—finding no shortage of fruit.” She notes that it is especially important to squeeze more business value out of fairly recent IT investments before moving on to new investments. “The hardest thing to do,” Terrell adds, “is to stay focused on the business value during these kinds of times.”

New technologies represent step changes in how IT can contribute value—from IP telephony to mobile computing and social networking. For example, Jacoby says Cisco’s use of TelePresence virtual conferencing is about much more than

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cutting travel costs and improving attendees' productivity. "It has also increased our overall numbers of customer visits by at least 30 percent," she says. "In the IT organization, we've tripled the number of customer visits, which is a huge plus for Cisco's customer relationships."

At the same time, today's business leaders are better attuned than their predecessors to what IT can contribute. And there are more chances for rich dialogue between IT teams and their business counterparts—and more mechanisms for doing so, especially as collaborative technologies proliferate.

Priority actions

So if there is no doubt about why CIOs must take a markedly different approach to IT investment, what will have to happen for them to do that? The discussion at the Global CIO Council Forum laid the foundations for these six priority actions.

Act on the "hardy perennial" opportunities. There is much that can be done regardless of where the business is in the economic cycle. At Accenture, we work constantly to strip out operating spending by rationalizing systems at any level (see sidebar, page 3).

Accenture places enormous importance on the simplification of IT, moving toward a single version for as many applications, programs, platforms and networks as is feasible. For example, when we opted, some years ago, for a single "global instance" of enterprise resource management, we were able to decommission 450 enterprise systems worldwide. The important benefits came not only in IT operating efficiencies but in much more fluid and accurate workflow and communication across the company.

Often, the redundant systems are effectively hidden—seeping into

the business over time. One recent example: A major retailer had already begun to minimize internal IT spending when it discovered that its business units had developed their own shadow IT budgets, which was highly inefficient because the spending wasn't leveraged across the company. The damage? Some \$60 million a year in IT initiatives the CIO was not aware of, including salaries for 89 IT professionals on the business units' payrolls.

The company's CIO reclaimed the \$60 million, rationalized the services that sum represented across the business units, and then provided the same services to the business for half the cost. Bottom line: \$30 million in savings.

Cisco is a great believer in systems simplicity. The key, says Jacoby, is to have "an overall architectural strategy that allows you to consistently drive productivity in how you run the business while positioning yourself for scale when the business begins to grow again."

Jump-start initiatives that are opportune now. A recession can make difficult decisions easier. It's an opportunity to, for example, outsource or reengineer IT activities whose benefits were previously marginal. The important thing is to have a process for prioritizing what can drive the biggest improvement the fastest—and another process for communicating the benefits of the resulting gains.

At Baxter, Terrell divides the company's IT projects into those that drive efficiency—what she terms "context" projects—and those that are "core," boosting effectiveness. "Stay invested in the core," she says. "IT has in the past been viewed as a context part of the business—people say, 'Let's squeeze

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Nokia's "one company" approach

If you ever get an email from Nokia CIO John Clarke, take a moment to check out his signature line. The reference to "One Nokia IT" speaks volumes about how Clarke views his group's role within the communications company.

It also means Clarke's approach to IT investment is markedly different from that of many other chief information officers.

At a time when internal partnerships between IT groups and business units are hot topics wherever CIOs meet, Clarke sees no boundary at all separating what his teams and others at Nokia are responsible for. "We tend not to talk about partnerships," he says. "We're all part of the same team."

If that statement sounds a little too idealistic, it's worth noting that it is seasoned by the IT group's motto: "Ensuring growth—accelerating transformation." Clarke is emphatic that his job is to employ IT as a lever for the success of the business, upholding Nokia's promise of helping consumers connect in new and better ways.

Thus, Clarke does not feel boxed in by tough times like many other IT leaders, who are being forced to cut discretionary IT spending, which can hurt service quality and innovation later. "We try not to refer to them as 'IT investments' or 'other investments,'" he says. "Candidly, we look at all spending at Nokia as an investment. We don't distinguish between discretionary and non-discretionary; each investment must stand on its merits."

As such, the Nokia CIO is increasing his group's investments in areas such as analytics and collaboration—IT platforms that can improve operational performance companywide. Just two examples: Clarke and his team are helping upgrade customer data management and analytics to gain more insight into consumers and their behaviors. And analytics can also help track clicks so Nokia can enhance consumers' experiences of its web-based solutions.

It's not that Clarke's groups are immune to the cost reductions that Nokia has had to enforce during this recession. But he couches his comments in terms of constant adjustments to the rate of investment rather than using more binary language. "Cut or grow IT? That's far too blunt an instrument," he says.

Clarke, who left the chief technology officer role at UK-based grocery giant Tesco in 2005 to join Nokia, has recently helped the company rethink its strategic thrust: Information has been declared as one of its strategic enablers, alongside people and brand.

He has also been instrumental in developing new ways to help Nokia leaders see what they get for their IT investments. He uses a simple grid to map IT initiatives—new platforms, new utilities and more—to their costs and benefits, dubbing it "the Occam framework" after William of Occam, the 14th century English philosopher who preached the virtues of simple approaches to complex challenges.



CIO Clarke: Changing the vocabulary of IT spending

At the same time, the CIO and his team have unbundled the IT investment figures that previously were rolled up into one number—for everything from phone bills to strategic projects. "We were never going to have intelligent discussions about costs if we couldn't see what was inside that number," says Clarke.

Now the business can more easily understand the trade-offs in managing IT costs—the ways in which, for example, data storage costs can be cut by renegotiating the per-unit cost of storage or by reducing demand. "It has certainly helped people's understandings of what IT is contributing," says Clarke. The new approach is proving its worth with Nokia's push into solutions, exposing the dangers of cutting back on IT investment.

None of this implies that spending runs rampant, of course. To address the ongoing challenges of managing IT costs, Clarke chairs Nokia's IT and Process Council, a monthly forum. The council, comprised of eight other Nokia senior vice presidents and vice presidents, agrees on total IT investment and then allocates it. "Previously we reported the IT spend; now we manage it. That's a big leap forward," says Clarke.

The focus on process is deliberate. Clarke told *CIO* magazine that his role spans process and technology. "The CIO must be more and more involved in the overall operations of the company," he said. "Hopefully, a lot of CIOs will become chief operating officers, because a lot of what they do these days is so intrinsic to what a company does." But what about Nokia's IT professionals? Not even the most enlightened IT leader can ensure that everyone follows—or agrees. Clarke admits that many of his staff were skeptical of his vision of key IT platforms—analytics being a case in point. His strategy is to keep the conversation on the consumer, reducing his internal presentations to a handful of slides that talk business, not technology.

"A lot of this is about changing the vocabulary," he says. "Will this make things simpler, better, faster for the consumer or for Nokia? If the idea scores on none of those counts, why are we doing it?"

He has also embraced Nokia's slant on workforce management, offering challenging assignments, promoting staff using the company's "large raincoat" philosophy (capable staff will grow to fit the coat) and rotating IT staff in and out of business roles. Validation of his approach: Nokia's sales teams regularly ask for IT staff to accompany them when selling Nokia's solutions.

"If you work in IT here," says Clarke, "you know a lot about the company."

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cost out of it.’ Core drives business value on the top line—not at the level of productivity improvements and cost savings.”

Terrell recently deployed a team to help her company’s medical devices unit improve its wireless protocol offerings. Previously, the team had supported only the IT needs of the unit’s engineers.

Deploy new technologies that cut operating costs and add business value. Virtual collaboration technologies are typical of the technology investments that can bring dramatic and immediate savings—and a wealth of intangible benefits, ranging from rapid multiplication of customer contacts to richer stakeholder networks to higher productivity and greater employee engagement.

IT also has ample opportunities to leverage “green” initiatives companywide, helping the business reduce its carbon footprint—an increasingly important measure of performance—and meet tightening regulatory mandates.

Leverage new technologies to reduce IT’s own operating costs. Cloud computing is, perhaps, the technology that has generated the most excitement in the last year. When deployed properly, it has great potential to reduce IT operating costs related to both infrastructure and applications and even to reallocate planned spending on associated upgrades.

Server virtualization systems and technologies such as storage virtualization also bring important cost efficiencies to IT. And CIOs can do much to bring down the escalating costs of running existing data centers by adopting “green computing” techniques that are now gaining traction with top-performing companies.

Forge ever-closer links with the business. Jacoby and Terrell report directly to their CEOs. But that is no substitute for their credibility and influence with the rest of the C-suite.

“When I talk to [Cisco CEO] John Chambers, I’m only going to talk about how we’re going to enable the growth strategies of the business,” says Jacoby. But the conversations don’t end there.

“I’m going to relate to [other key executives],” continues Jacoby, “based on their functional responsibility, the business process they’re responsible for, and how IT is going to bring productivity to that functional area.”

A particularly important conversation is the one Jacoby has with her CFO. “If the CFO doesn’t understand your strategy, you’re not putting it in their terms and you won’t get very far,” she says. “The budgeting process will always thwart you even though you think you had everybody else on your side.”

Jacoby pushes the linkages further. Noting that it’s also her group’s job to look at how it is going to change Cisco business users’ IT experience over time, positioning them to drive growth strategies for the business when the company comes out of the downturn, she makes sure that her senior IT staff have extensive exposure to the C-suite. “In some instances where I struggle with a particular relationship, it helps to have someone on my staff who probably has a better relationship with that person,” she explains.

Strengthen the IT talent bench. This is an ideal time not only to replace the poorest performers but to carefully thin the ranks of the weaker players. At the same time, it is important to strengthen the financial savvy of IT staff, helping them learn and communi-

Technologies such as cloud computing, server virtualization systems and storage virtualization bring important cost efficiencies to IT.

cate in the language that much of the business uses.

At mobile phone giant Nokia and other top companies, job rotations between IT and business staff are not uncommon. And at Cisco, Jacoby thinks in terms of “virtu- alizing” talent so that staff can participate more broadly than a fixed job description might entail.

Rely on partners’ capabilities.
A number of leading CIOs have

come to realize that their organizations do not have to be the best at everything. Baxter’s Terrell relies on deep and longstanding relationships with the company’s hardware and software partners to drive core IT projects. For instance, Microsoft, on behalf of Baxter, is developing commercial software for clinics. “Why would we even try to compete with that?” asks Terrell. “You just have to know where to get the expertise.”

CIOs everywhere must demonstrate the critical need for investing in IT as if tomorrow was today. The recession offers an important opportunity to show what IT can do, not only to improve its own cost-effectiveness but to help the business emerge from the downturn in very good health. It’s IT’s obligation to help its business colleagues see how investments in IT infrastructure today can provide higher service levels for less money three and four years from now.

If these efforts succeed, they will only widen the performance gap between the companies that view IT as a strategic pillar—and that continue to invest through the tough times—and those that don’t.

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