

Significant and Sustained

Cutting costs while achieving
better performance

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The current economic downturn requires a strategic approach to cutting IT costs. High-performance businesses successfully reduce overall costs sharply and for the long term, shifting spend toward IT capability and business growth while stepping up IT performance at the same time. Here are the three practical steps that they follow.

Michael Nieves and Stephen Page

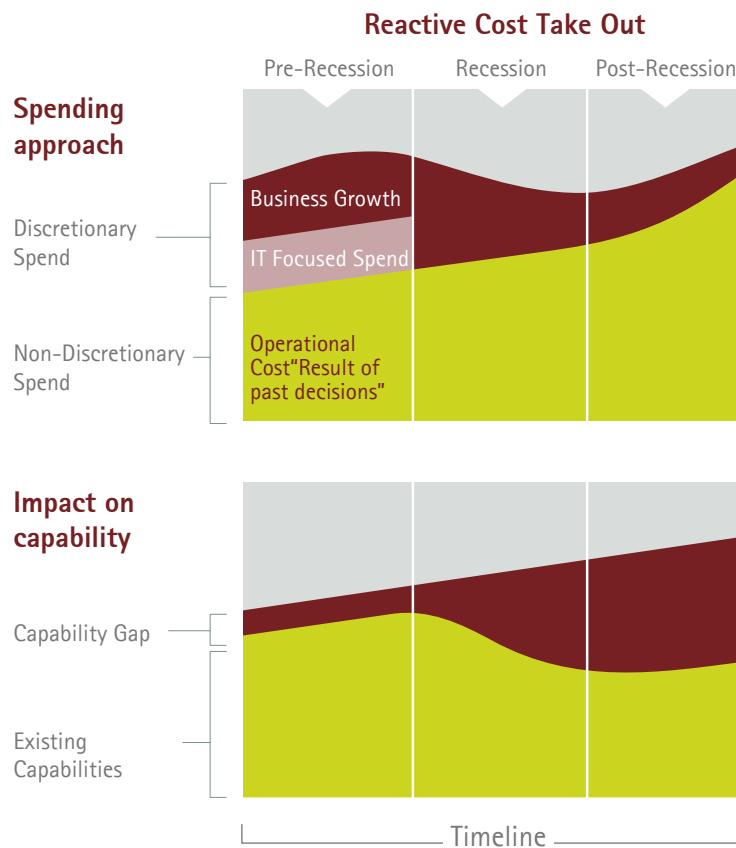
With a wide-spread economic downturn well underway, top managers are prioritizing cost reduction as never before—and they are looking for new solutions and proven practices. It's inevitable that cost-cutting efforts will land heavily on IT since it is a significant cost center and because it impacts costs in almost every business activity.

That's sobering news for CIOs, most of whom have taken out plenty of cost across their IT functions in the last few years. Most have already done "the easy stuff," and although those efforts have contributed to the bottom line, conditions and circumstances have changed thus calling for a new look at sustainable and dramatic cost reduction.

Two areas that historically (and often wrongly) have received the lion's share of cost cutting attention are discretionary spend and IT funds earmarked for business growth. It's not that these approaches to short term cost-cutting don't help, of course. They can be (and often are) highly effective at the department and project level, where smart middle managers can do a fine job of prioritizing the right candidates for cuts from their points of view. But in the case of discretionary spend, on average it only accounts for about a fifth of today's overall IT budget. Too often, cuts made only in discretionary IT spending can have unintended consequences by affecting IT service quality, which in turn diminishes the value and demand for IT services and negatively impacts business growth. The reduced demand prompts yet more funding cuts. (See Figure 1.).



Figure 1. Traditional (and often wrong) approach in a downturn: cancel IT and business projects. This widens the capability gap.



The way forward: A sustainable approach to cost-cutting

So what's the way forward, as the calls for cost reduction grow louder? Accenture finds that high-performance IT organizations typically follow a three-phase journey (See Figure 2) built around an integrated approach that delivers short-term cost savings. This approach not only funds the changes that will produce greater savings but lays the foundations for growth and innovation:

1. **Minimize:** First, identify areas of clear and immediate cost reduction opportunities. This step provides increased room to maneuver while boosting the confidence of stakeholders in the prospect of near-term cost relief.
2. **Optimize:** Then work to run current operations more efficiently by improving the use of software and

hardware assets, thereby divesting non-essential assets and decreasing the average IT unit costs.

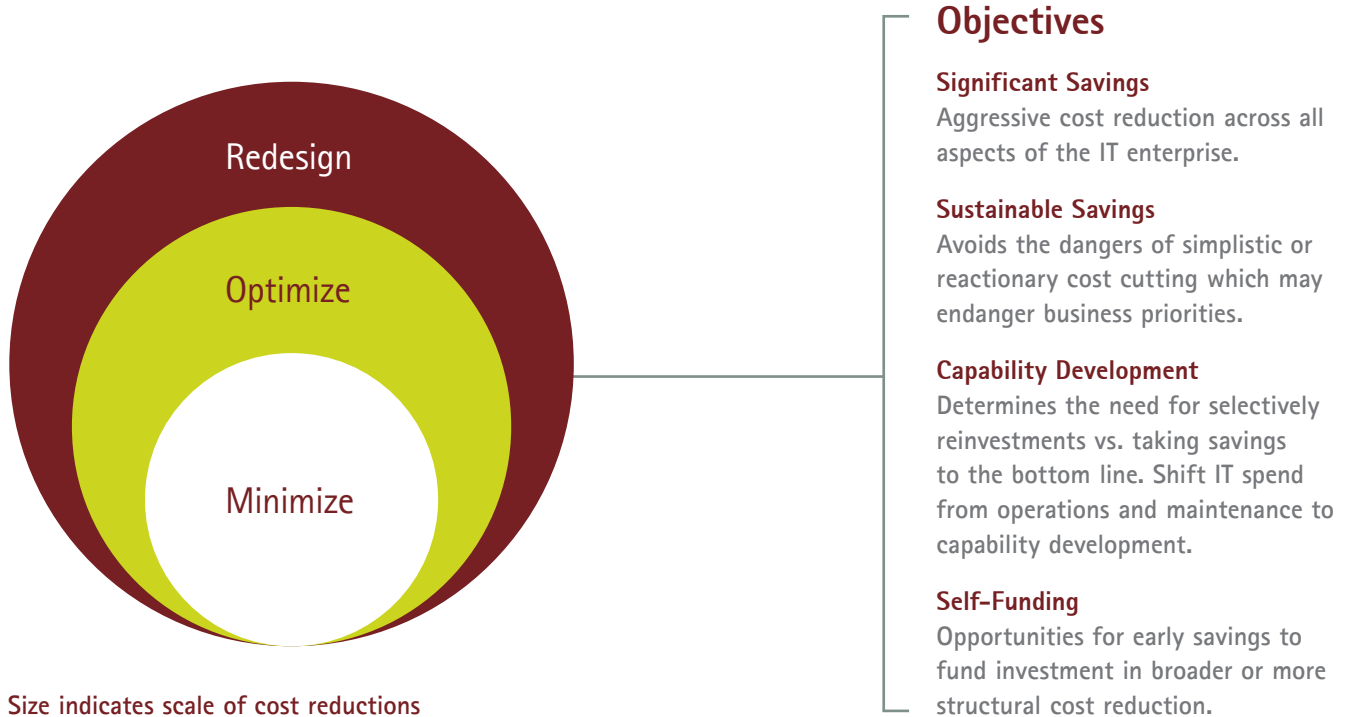
3. **Redesign:** Then embed structural changes by shifting the focus to an efficient and effective IT operating model. This drives significant improvements in labor costs, extracting savings through better operating models, industrialized processes, transformational technologies, and sourcing strategies.

Accenture's work with aspiring high-performance businesses who are eager to cut costs strategically, begins with discussing a "to be" version of the IT budget that envisions substantial compression of the non-discretionary component with a dramatic increase in the portion that goes to discretionary projects. The big point here is that

discretionary funding is not only protected but enhanced. (See Figure 3.)

The work is focused on isolating and removing "hidden" IT costs—the shadow IT assets and infrastructure found throughout the organization—and then teaming with business leaders to manage demand for IT services more cost-effectively. This layered approach is a tall order, no doubt. But it's a practical route to ensure that cost-cutting and high performance for the long term become attainable together—not at the expense of each other. There are substantial benefits: In our experience, the approach allows CIOs to achieve durable cost reduction that is up to four times greater than with traditional cost-cutting efforts.

Figure 2. Accenture's approach does not limit the scope of cost generators thereby producing 20-40% in sustainable savings while preserving organizational performance.



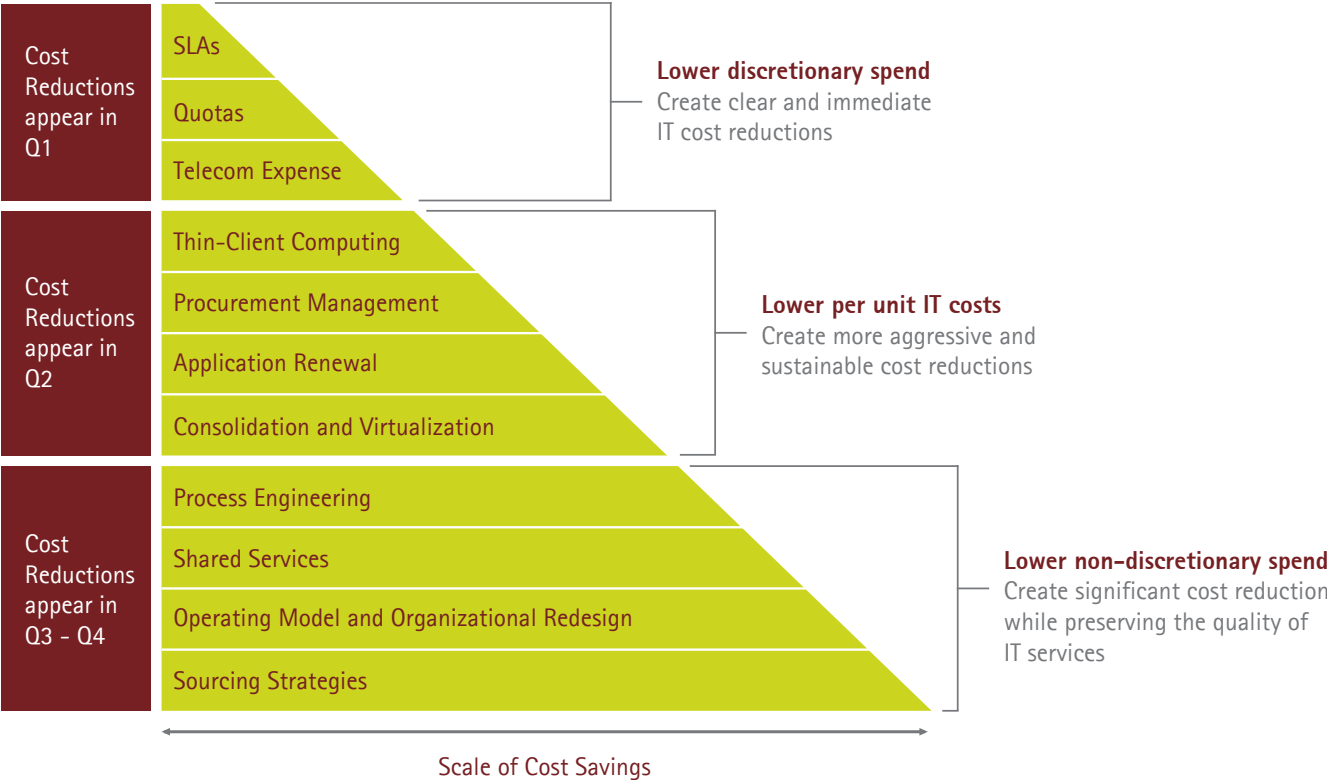
Let's examine each stage of the three-phase journey to significant and sustainable cost reduction:

Minimize: Stabilizing IT spending patterns

One way in which the CIO may be able to tap into relatively rapid savings opportunities is by seeking out and tackling "hidden" IT costs that have seeped into the business over the years and in many ways have become operating costs with little or no value. Accenture went through this stabilization exercise itself when, in the course of a company-wide IT overhaul, our CIO decommissioned more than 200 applications around the world, saving Accenture more than US \$12 million as a result.

One recent example involved a major retailer who discovered startling amounts of IT cost hidden in its business operations. The company had already successfully taken steps to minimize internal IT spending, but with help from an Accenture team, the retailer found that the business units had developed their own IT budgets, with the result that some \$60 million a year was being spent on IT initiatives of which the CIO was not aware—including salaries for 89 IT professionals on the business units' payroll. The CIO reclaimed the \$60 million, rationalized the IT services to support these business units, and then provided the rationalized services to the business for half the cost. The company realized a savings of \$30 million. (See pg10 "Profile: Strategic IT cost-cutting in action.")

Figure 3. Significant cost reduction is difficult without addressing non discretionary IT spend.



Optimize: Running current operations more efficiently

The next phase begins the work of making permanent changes in IT spending—and IT capabilities—both within IT and in the business. The change that the CIO needs to lead—and to impress on top management—can be seen in the contrast between the two charts in the figure below. (See Figure 4.)

The right-hand diagram suggests an alternative to the reactive cuts to IT-focused discretionary spending described earlier. With careful re-targeting, the CIO can redirect some of the ongoing operational non-discretionary spending to deliver greater business value. Savings from a server virtualization initiative, for example, can be directed toward a process redesign on how the servers

are managed, yielding durable savings in labor costs. Without such an investment, savings from virtualization tend to be short-lived.

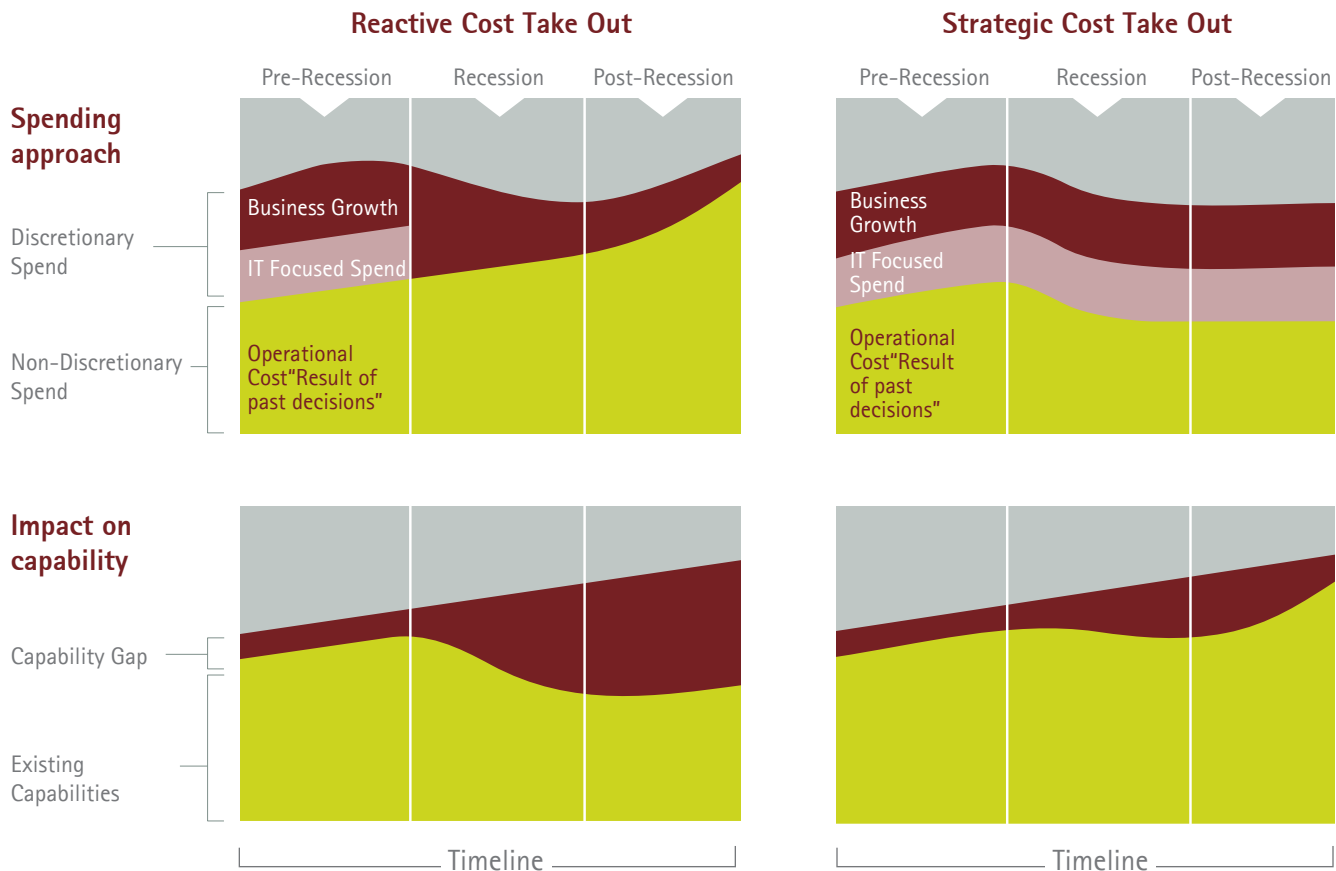
Accenture's internal IT optimization effort show the benefits of careful reallocation of IT spending. Leveraging the Internet's scale and cost efficiencies, Accenture was able to move to a single technology platform that involved migrating the company-wide messaging and collaboration solutions. Accenture rolled out a three-year staged rapid migration of nearly 80,000 e-mail users in 48 countries. At the height of the nine-month rollout, up to 1,000 e-mail users were transferred per day in one of the largest and fastest e-mail migrations ever completed. The company also installed an e-mail capability that allows employees on

the go to manage their e-mail through mobile devices.

Along with the e-mail migration, Accenture launched a centralized knowledge management repository to replace the legacy system. By streamlining data, creating a single repository, improving the search capability and creating dynamic content capabilities, employees can now find content more quickly and spend more time on client-facing activities.

Many leading companies are finding that they can consolidate their data processing environments to gain substantial cost reductions with continual payback. Today's data center is much better equipped to scale up than in the past because sophisticated "virtualization" tools are now available

Figure 4. An alternative to the reactive cuts to IT-focused discretionary spending.



to manage the software environment. However, the move toward virtual systems places more pressure on governance, not less. Achieving the potential savings of server consolidation requires the CIO to be able to exert 'command and control' over these elastic resources and to migrate applications and data services onto the consolidated environments.

At the same time, the data center is a valid focus area in IT's efforts to support the company's environmental agenda. (See box: The power of "green.") It is only one green IT opportunity among many. IT can make a real and demonstrable environmental contribution in a wide variety of areas, ranging from changing working habits to the increased use of multifunction printers and from reducing business travel through the latest wave of

workplace collaboration tools to encouraging recycling and reduction in internal paper production.

Of course, the more complex the proposed change, the greater the potential to incur resistance across the company—and the more it calls for heightened levels of leadership on the part of the CIO and executive management team.

For companies planning a far-reaching IT cost-cutting strategy, there is guidance in Accenture's principles for leading change. Accenture sees industry leading practitioners starting off by establishing a strong sense of urgency. Then they work to create a guiding coalition—finding and winning the support of powerful executives, ideally in the business functions that will be most affected by the

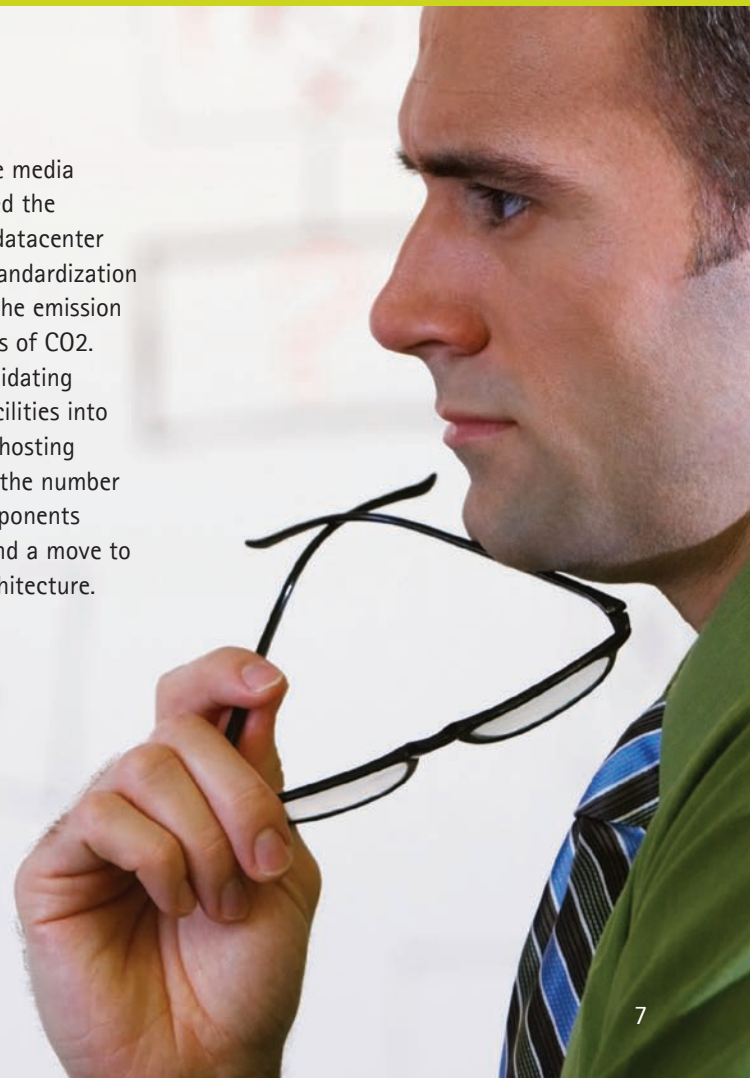
proposed IT cost reduction strategy. This signals to the organization that top management is serious about cost reduction, and helps to galvanize change in areas that were previously considered 'sacred.'

The power of "green"

There are new opportunities to cut costs as part of a green IT initiative—by focusing on reducing power consumption and carbon emissions.

For example, as part of a datacenter strategy assessment for a telecommunications operator, Accenture identified opportunities to reduce the power consumption within the datacenter estate by around 12% annually, thereby delaying the need for a new datacenter by about three years. This efficiency improvement simultaneously reduces the wider costs associated with IT service delivery and facilities management.

And for a client in the media industry, Accenture led the implementation of a datacenter rationalization and standardization program that avoids the emission of around 54,000 tons of CO₂. This is done by consolidating several datacenter facilities into two state-of-the-art hosting centers and reducing the number of infrastructure components using virtualization and a move to a blueprint-based architecture.



Redesign: Embed sustainable changes

During this phase, forward-thinking IT organizations push toward lower-cost delivery models. The key is the ability to make structural changes which affect dramatic improvements in working capital and labor costs. (See pg10 "Profile: Strategic IT cost-cutting in action.")

When a global banking and investment institution undertook a recent IT transformation, significant cost reduction was an imperative. Its organic and inorganic global expansion and strong client focus had left it with an IT environment that was highly localized. So for example, clients in Singapore were handled exclusively by the Singapore hub. This approach

had worked well over the years, but at a substantial cost. The company now had to gain greater global control of its standard processes and tools, enabling it to find significant cost savings while maintaining organizational performance.

Several cost minimizing and IT optimizing changes were implemented and brought targeted benefits including economies of scale, higher and more consistent service quality, lower risk, and tighter control of costs. However, the financial services firm also wanted to retain the clear advantages generated by local knowledge and client relationships. This raised a key question about the company's future operating model: how centralized should it become—and how decentralized

should it stay? Accenture helped the company launch its IT redesign by applying ITILv3 in order to create a new infrastructure operating strategy. ITILv3 is the latest version of ITIL, a set of concepts and policies for managing IT infrastructure, development and operations. This effort drove the redesign of the operating model, which in turn drove new organizational design, operating processes, and roles and responsibilities across the organization. Under the new operating model, certain components of the company's service management were centralized, while others were decentralized to local hubs—including global responsibility for some domains.

The overall approach enabled the company to retain its responsive customer capabilities at a local level



while realizing global economies of scale, standardized working methods, integrated tools, and governance. Moreover, by basing its operating model on an industry standard, the company positioned itself for greater IT cost reductions using readily available sourcing strategies.

The idea that cost cutting and performance improvements are not mutually exclusive is gradually gaining acceptance among CIOs and their business colleagues. And now the frameworks are there for CIOs to secure support for significant and sustainable cost reduction. The CIOs who see the big picture will be those who can demonstrate IT cost cuts that can be sustained—while improving business performance over time.

Now, with a clear economic mandate and greater stature within the enterprise, CIOs are uniquely positioned to find opportunity among the negatives of today's economic climate. Today's CIOs have more leverage, more tools and more opportunity to make more of a difference.

But there can be no delay. The need for action is right now.



Profile: Strategic IT cost-cutting in action

A leading European financial services provider followed a disciplined three-step initiative to take more than €450 million out of its IT budgets. As is the case at many other organizations, its cost-saving efforts were sparked by a one-time event: a merger with another financial firm.

An ambitious player in a highly competitive market, the company was confronted with significant margin pressures, a thicket of regulatory challenges and a complex merger integration. At the same time, the company was in the middle of launching its own retail bank. Its IT operations were in no shape to help: They were highly fragmented and inefficient, with costs that outran industry benchmarks, minimal investment in innovation and service levels that were less than impressive.

The company moved quickly to minimize its IT spending, consolidating the number of contractors it used and stabilizing an IT budget that previously had been poorly controlled. The IT transformation team—which had unwavering support at the highest levels of the organization—sensibly paced the expected cost savings. Crucially, the IT transformation effort was designed to fund itself out of its own savings early into the program.

By the end of the first phase, the transformation team had cut IT costs by more than €40 million—and begun delivering major system changes. The company's mainframes had been regrouped at one center; three discrete IT organizations had been merged and rationalization of IT in functions such as purchasing and IT contractor staffing was complete.

Shifting into the optimization phase, the team launched an enterprise-wide process industrialization effort. At the same time, a major push was under way to unify IT structures—for example, standardizing on workstations, servers and PCs—not only to cut procurement and system maintenance costs but to permit implementation of industry leading service delivery and system delivery processes. Meanwhile, the team also worked to manage and deliver business-critical projects such as the retail bank, a new customer relationship management solution and an integrated sales station, essentially renewing applications and retiring older and more costly solutions.

Entering the redesign phase, the company poured extra effort into a group IT governance model that would consistently isolate and increase discretionary investment and would ensure that the IT operating model remained in sync with the company's business strategy. Specific governance groups were established to help confirm continuity of the frameworks laid down—for example, a domain committee grouped IT customers by business area while a quality service committee was set up to monitor compliance with service level agreements for each client.

By the end of the project, the company's annual IT costs, which were €508 million at the outset, were 30 percent lower than that, with the discretionary component actually twice the percentage level it was initially, freeing up funds for business growth and IT innovation. Cumulative savings over the three

phases of the cost reduction project totaled €450 million. IT is now tightly aligned with the business objectives, and is lean and flexible enough to be able to respond to new demands. Levels of satisfaction with IT are high among business users, and IT staff are markedly happier.

Importantly, there are frameworks and structures to sustain and improve on IT's role. Project management methodology ensures that deadlines, quality levels and cost targets are reached, with monthly reviews guaranteeing discipline and oversight. There is a full competency map for 400 employees and for nearly as many competencies, and the IT group now has world-class employee performance management practices in place. In short, the financial services provider's IT group is not only working more effectively, but it is working harder on the right things.



About Accenture

Accenture is a global management consulting, technology services and outsourcing company.

Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 186,000 people serving clients in over 120 countries, the company generated net revenues of US\$23.39 billion for the fiscal year ended Aug. 31, 2008. Its home page is www.accenture.com.

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