



Thinking bigger

By Gary A. Curtis, Stephen D. Page and John K. Kaltenmark

Can a company maintain strong, competitive information technology capabilities and still meet demands for reduced IT spending? Yes—by taking a bold, comprehensive approach that transforms every facet of the IT organization, from strategy to systems design to human performance.



■ For companies in nearly every industry, strong information technology capabilities have long been a competitive necessity. More recently, however, economic conditions have made sharp reductions in IT spending a financial requirement. Reconciling these two imperatives is one of the chief strategic challenges currently facing the world's major enterprises.

Can such disparate challenges be addressed simultaneously? Yes, they can; indeed, they *must*.

Narrowly focused responses to IT cost and service problems abound. But evidence compiled in industries ranging from financial services to wireless communications to music indicates that the real IT payoffs come from thinking much bigger. The prize, after all, is not an IT budget that has gone from being a cost of doing business to being a slightly lower cost of doing business. It is an IT organization that creates greater value for the company.

Winning this prize requires, first and foremost, a willingness to be bold. It takes a strong, top-level commitment to solving today's problems in a way that puts IT in the mainstream of tomorrow's corporate strategy. It takes an upfront investment, albeit a moderate one that pays off quickly and well. And it takes a broad range of tools and techniques that, grouped together, form a discipline Accenture calls information technology transformation.

The word *transformation* isn't used lightly. The task is difficult, but as the experience of Groupama—France's third largest insurer—illustrates, it is not impossible.

An ambitious player in the increasingly competitive European financial services market, the company

launched a retail bank in 2002—no small undertaking from an IT point of view. Yet Groupama is making this strategic move while simultaneously carrying out an information technology initiative that will reduce its IT spending by €41 million in 2003 and €90 million in 2005.

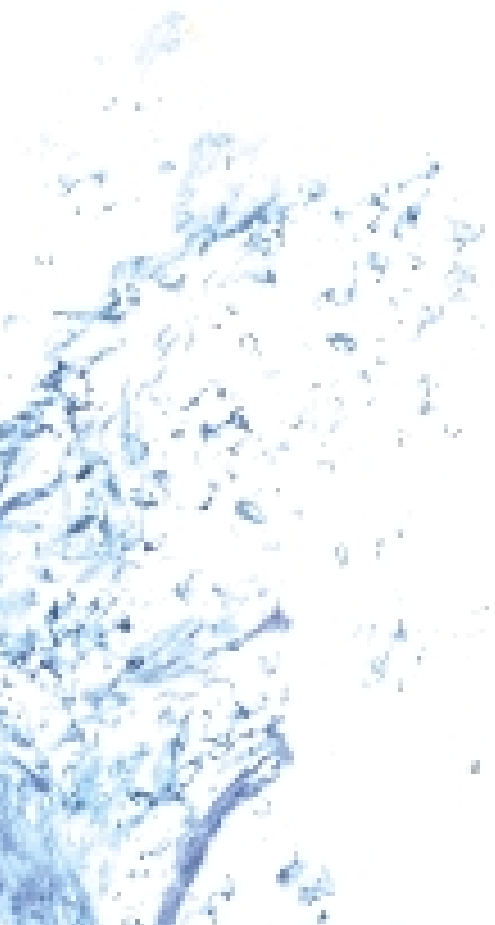
Even as the company confronts the problems besetting most corporate IT departments today—tight budgets, burgeoning complexity and shortages of highly skilled employees, among others—it is also creating the conditions, and freeing up the funds, necessary for adding new, strategically important IT capabilities.

As applied at Groupama and many other companies, IT transformation is a holistic approach, addressing every facet of the IT organization and producing substantial changes not just in technology and supplier relationships but in culture and governance as well. IT transformation ultimately touches on everything from strategy to systems design to human performance issues such as training and career paths.

Boom, bust

The comprehensive approach is mandated by the sheer scope of the challenges IT organizations face. Multiple acquisitions and the rush into e-business were among the features of an extraordinary boom-bust cycle that has left many large companies with a legacy of unintegrated and hard-to-maintain systems.

Old systems often support customer-facing applications for which they were never intended. Complex architectures require the IT organization to manage many different suppliers. Key decisions are made locally at a time when global coordination is needed. As an illustra-



tion of how pervasive these challenges are, in nearly every major survey of large companies' IT functions during 2002, respondents cited "enterprise integration" as one of their top spending categories.

All this means that nondiscretionary spending dominates IT budgets. As a result, available resources are diverted from discretionary IT initiatives that improve competitiveness and add value to the business.

In some organizations, cost-cutting programs are actually making things worse. For example, a slice-and-dice approach to sourcing—wherein individual technologies or IT processes are sourced to the lowest bidders—may create initially tantalizing cost savings. But piecemeal sourcing, which cannot drive a bold change in capability, usually makes it harder for the organization

to manage its day-to-day activities. Longer-range goals tend to get blurred in negotiations with multiple suppliers. Often, such sourcing locks an organization into yesterday's inadequate IT.

Across-the-board cost cuts are equally ineffective. Scaling back projects until IT costs are capped at a notional limit can seem decisive. But the easiest cuts, normally made in discretionary spending, often sacrifice initiatives with the real potential to create future value for the business.

IT transformation is about reducing costs, too, but with a larger purpose. The major targets for spending cuts are nondiscretionary items—the things the organization has to do just to keep the company functioning normally. A large portion of the savings is then channeled into dis-

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IT spending framework

To fund IT transformation, you need to identify nondiscretionary costs that can be cut and then use those monies to pay for new, discretionary, value-added activities.

Definition	IT spending	Management approach
<p>Discretionary costs ("want to") are investments in new IT functionality and improvements to the IT organization</p> <p>Examples:</p> <ul style="list-style-type: none"> • Customer relationship management • E-commerce • Knowledge management • SAP R/3 migration • Build a new SAP interface 	<p>A central blue circle labeled 'Discretionary' has two red arrows pointing outwards to the words 'Strategic' (top-left) and 'Tactical' (bottom-left).</p>	<p>Invest sensibly in important IT opportunities where business value can be identified</p> <p>Best practice IT discretionary spending: 35 - 45%</p>
<p>Nondiscretionary costs ("must have") are costs required to maintain current IT functionality and operations</p> <p>Examples:</p> <ul style="list-style-type: none"> • Computer operations • Applications maintenance • Planning and administration 	<p>A central light blue circle labeled 'Non-discretionary' has a red arrow pointing to the right.</p>	<p>Focus on optimizing efficiency while maintaining operational integrity and acceptable service level</p> <p>Best practice IT nondiscretionary spending: 55 - 65%</p>

SOURCE: ACCENTURE ANALYSIS

Reductions in nondiscretionary spending produce permanent savings and can provide the basis for permanent improvements in the organizations that achieve them.

cretionary, value-adding activities (see chart, page 11).

For example, in an Accenture survey of 20 recent IT transformation initiatives in the financial services industry, respondents indicated that the projects generated gross savings ranging from 20 percent to 35 percent of the companies' total IT spending.

Roughly two-thirds of the savings were reinvested in discretionary value-adding activities such as improving sales-force support; this pushed nondiscretionary spending below the 55 percent-of-total-spending line that is the maximum consistent with a sustainable enhancement of IT capabilities. In spite of this reinvestment, the companies had net savings of 7 percent to 11 percent of their total IT spending.

What specific changes are being made within IT organizations to produce results like these? They fall in three general areas: changes in governance and culture; changes in technology and processes that produce cost savings; and the addition of new, strategically significant capabilities.

Governance and culture

The most profound changes produced in the course of an IT transformation often come in the way in which decisions about IT resources and initiatives are made. What is the chief information officer's role, and how much does he or she help shape overall business strategy? To what degree do the company's other top leaders participate in IT decisions? How can the resources across a complex business be used in an integrated way?

IT transformations inevitably involve the IT unit more in the company's critical decision-making process, and

draw technical and business leaders closer together—the better to align IT with corporate goals and strategy. (For details on how this occurred at one global company, see the box on Accenture's own IT transformation, on page 13).

Another key governance issue is local versus centralized control of IT decisions—a particularly thorny problem for companies operating in several countries. For example, after a period of aggressive expansion via acquisitions, one global financial services group was operating 60 different companies around the world, each with its own IT profile. Giving those sprawling IT operations a common agenda, while providing the companies with sufficient independence in their local markets, then realigning and consolidating their service-delivery capabilities, was a major IT transformation challenge for this company.

Linked to governance issues is the matter of the IT organization's culture. How people are trained, deployed, compensated, promoted and (perhaps most important of all) led gets careful attention in an IT transformation. Here, too, the goal is forging tighter links between the IT organization and the company's business objectives.

Consider, for example, the experience of Orange, the United Kingdom's leading mobile communications provider. Orange's runaway marketplace success and rapid growth, including the rollout of new services, required the company to revisit the technical organization's ability to manage scale and complexity. Systems stability and project delivery were both critical to ensuring the quality of service.

Orange responded by transforming its IT organization, with an emphasis on building a strong, positive rela-

tionship between the IT teams and the rest of the business. Improved processes were introduced that aligned accountability, authority and responsibility; leadership development; the training of IT managers in team-building techniques; and new communications channels. The initiative helped create a shared vision within the IT team.

In less than a year, the transformation of Orange's IT organization reduced unplanned systems downtime by more than 50 percent and dramatically improved the reliability and on-time completion of solution-delivery projects. A new governance framework ensures that demand targets are both aligned to business needs and achievable.

Although cost savings were not the original driver, efficiency gains of 20 percent to 30 percent have been recorded, while output is up more than 20 percent.

Delivering cost savings

What are the main drivers of excess IT costs? Round up the usual sus-

Accenture's own IT transformation

Watershed events in the life of a company are usually attended by similarly dramatic changes in its internal information technology organization. At Accenture, for example, the convergence of several major factors—including a name change and a comprehensive rebranding; the adoption of new business strategies; and the transition in 2001 from a private partnership to a publicly traded company—necessitated new IT policies, structures and capabilities.

In April 2001, a few months prior to the IPO, Accenture developed a new IT strategy, now in place. This strategy has significantly lowered the company's IT costs while improving the ability of its 75,000 employees—80 percent of whom are mobile—to serve customers in 47 countries around the world.

In laying the foundation for this change, an early step was to improve the IT decision-making process. IT governance is now driven by an IT steering committee, which includes the chief information officer as well as operational leaders from each of the company's major business units. The committee is directly aligned with the company's management committee—a setup that clarifies decision-making authority and brings visibility to the results of those decisions.

Planning that took place locally under the partnership structure has been replaced by global coordination. Ad hoc IT efforts have been significantly reduced, and the projects that do get funded enjoy appropriate resources and executive sponsorship. There's clear accountability for the realization of business-case benefits.

Cost reductions have been achieved in a variety of ways, outsourcing prominent among them. Application development and maintenance are now the province of Accenture's global network of delivery centers. Using the strategic delivery model—which calls for doing the design work close to the customer but the development work in a

lower-cost location elsewhere—has reduced the unit cost of delivery by 40 percent.

Meanwhile, on-time delivery of applications and sponsor satisfaction have increased.

Management of the IT infrastructure has been transferred to Accenture Technology Infrastructure Services. Accenture maintains control over customer requirements and core activities such as strategy, enterprise architecture, engineering and integration services to ensure a cohesive approach.

Data centers are being consolidated. A new network architecture leverages the Internet and other convergence technologies. Support functions, previously local, have been shifted to a combined help-desk and web-based/self-service model. Staffing levels have been reduced somewhat, with a higher proportion of variable, as opposed to permanent, employees. All told, the measures have reduced Accenture's IT costs as a percentage of net revenues and IT cost per employee by more than 20 percent. At the same time, employee satisfaction with IT products and services increased during this process.

How has Accenture put these savings to work? The greatest business impact of these initiatives is that Accenture has been able to focus on bringing secure anytime, anywhere access to productivity tools to its highly mobile client teams. The company has reinvigorated security policies, processes and technologies, and it has implemented a global awareness and change program. It has also undergone an extensive initiative to enhance its e-mail and collaboration platform.

With applications and knowledge more readily available, the teams can now deliver more value for clients—and thus, for Accenture.

A number of companies have not only reduced their IT spending but have also taken important steps to position their IT organizations in tomorrow's competitive landscape.

pects: ineffective processes that are insufficiently measured; services that are overspecified; technology rationalization that doesn't go far enough; and weak supplier management, to name a few. To see how IT transformations tackle these problems, and others as well, let's return to the experience of Groupama, the French insurer.

Doing business in eight European nations and a dozen other countries and territories around the world, Groupama sells a wide range of personal and business insurance products, including life, auto, agricultural and maritime. Its premium income topped €12 billion in 2002.

The current company is the product of a 1998 merger with GAN, a brand the organization still uses. The GAN acquisition triggered an initial round of IT rationalization at GAN, where IT inefficiencies had become a significant impediment to profitability.

Major changes were needed—and were made. Among them: improvements in purchasing, with major contracts renegotiated and the number of vendors reduced; the merging of two operations sites; and decreased reliance on subcontractors. Thanks to these and other measures, GAN's 2002 IT budget was 30 percent lower than its 1999 spending of €184 million, and the organization was positioned for its ongoing integration with Groupama.

In 2002, a groupwide IT transformation was launched. Many of the cost-reduction measures applied at GAN have been (or will be) extended to Groupama. Some other major initiatives are under way as well. A reorganization of the group IT function will allow a reduction in the number of data centers, and the standardization of workstations, servers

and mainframes will produce further savings. Group IT costs, which were €508 million in 2001, are projected to be 30 percent lower by 2007.

Adding new capabilities

Because reductions in nondiscretionary spending produce permanent savings, they can provide the basis for permanent improvements in the organizations that achieve them—enabling the development of capabilities that would otherwise be out of reach.

Sometimes these capabilities take the form of dramatic new initiatives that can vault a company into the lead in a fast-changing industry. More often, though, the new capabilities represent incremental advances or enhancements to existing systems that enable, for example, improved customer service. In all cases, however, the new capabilities add new value to the business.

In wireless communications, Orange's IT unit is adding business value in equally significant ways. Better-managed systems and a more customer-focused IT staff are improving the company's customer retention rate—a major competitive issue in the wireless sector. More important, Orange's technical organization is delivering innovation and more flexibility in new products and services faster and with less risk of disruption. And thanks to standardized processes and improvements in reliability, fast-growing Orange has improved its organizational capability to deliver the scalability it needs.

In the financial services industry, the gains are apparent as well. Along with creating the IT framework needed to support the retail bank it launched in France, Groupama has

improved support for its growing property and casualty and health-insurance businesses, and has attained the strong core capabilities it needs to move into new geographic markets.

It's doubtful that any of the new capabilities these companies are adding would be achievable had they taken a narrower view of their challenges. Because they were willing to be bold, however, these companies have not only reduced their IT spending but are also able to take important steps to position their IT organizations in tomorrow's competitive landscape.

Across the industrial spectrum, customer relationship management, business-to-business automation and other IT-based functions grow steadily more important. After all, economic slumps don't last forever. And when this downturn ends, the companies that dealt with it most strategically will be best positioned to take the lead. ■

About the authors

Gary A. Curtis, a partner in the Accenture Strategy & Business Architecture service line, is the co-head of the Accenture Strategic IT Effectiveness group. As a consultant, Mr. Curtis has served the top managements of several global investment banks, major media companies and high-technology providers for more than 25 years. He specializes in evaluating the business value of large-scale IT applications and infrastructure portfolios, as well as in creating programs to improve that value over time. Based in San Francisco, Mr. Curtis serves on the advisory boards of several companies that are developing new technologies.

gary.a.curtis@accenture.com

Stephen D. Page, a partner in the Accenture Strategy & Business Architecture service line, leads the Accenture Strategic IT Effectiveness group in Europe, the Middle East and Africa. Working across a wide range of industries, his primary role is to shape and launch transformational change—especially for organizations in which IT is a critical strategic element—and to focus and achieve strategic value from IT. Mr. Page is based in London.

stephen.d.page@accenture.com

John K. Kaltenmark, Accenture's chief architect, oversees the development and deployment of the company's suite of technology architectures. He also co-leads a corporate initiative focused on addressing the needs of CIOs. In addition, Mr. Kaltenmark is managing partner of the Global Architecture and Core Technologies group. In this role, he is responsible for more than 1,000 personnel worldwide who implement complex technology solutions for clients across many industries. Based in Chicago, Mr. Kaltenmark is coauthor of *Enterprise System Architectures* (Auerbach/CRC Press, 2001).

john.k.kaltenmark@accenture.com