Do more IT for less

Best-in-class companies act beyond pure cost-cutting in ICT

Economic downturns force a cost-orientation, especially for "commodities" like Information & Communication Technology (ICT). The pressure on ICT organizations to improve efficiency and effectiveness rises – but best-in-class companies act beyond pure cost-cutting: A holistic performance optimization, maintaining and streamlining the strategic ICT portfolio and addressing all relevant CIO levers for performance results in a higher long-term ICT value and profitability contribution. The Arthur D. Little ICT performance radar contains a well proven set of levers to unveil these improvement potentials.

Cross fire on ICT cost

The current economic downturn forces companies to react. Most companies try to cut their cost and improve the bottom line. ICT intensely suffers from that (necessary) reaction as it typically is responsible for large investments. In addition, the perception of ICT as a cost factor rather than a business enabler is still prevalent. Consequently, companies cancel ICT investments on a large scale.

According to recent Arthur D. Little research (figure 1 overleaf) the majority of companies not only cut their projects and short term spending, but also postpone ICT investments, e.g. new software releases, expert hiring and hardware re-investments. Often, it is a short-term "cut everything by x%" approach.

Don't kill the innovation capability

But the competitiveness and sustainability of ICT and the core business is endangered by these cost-only oriented actions: Many ICT organizations heavily struggle to gain speed and innovation during and after a crisis on the rebound of again growing markets. As a result core business processes cannot be supported in the most effective manner, business innovation won't be enabled by underlying ICT innovation and new products won't be driven as they would've been with a competitive ICT.

On the other hand some companies seem to be able to cope with the current crisis very well – among them enterprises with significant ICT in their value chain – and report a solid gain in net income for the fourth quarter of 2008 and first quarter of 2009 amid the economic downturn.

The important questions therefore are: How can ICT improve efficiency and effectiveness at the same time? How to balance cost cutting and investment for innovation? How can ICT survive the crisis even stronger than before?

To respond to these questions Arthur D. Little developed an approach based on current benchmarks and studies from different industries: ICT performance management.

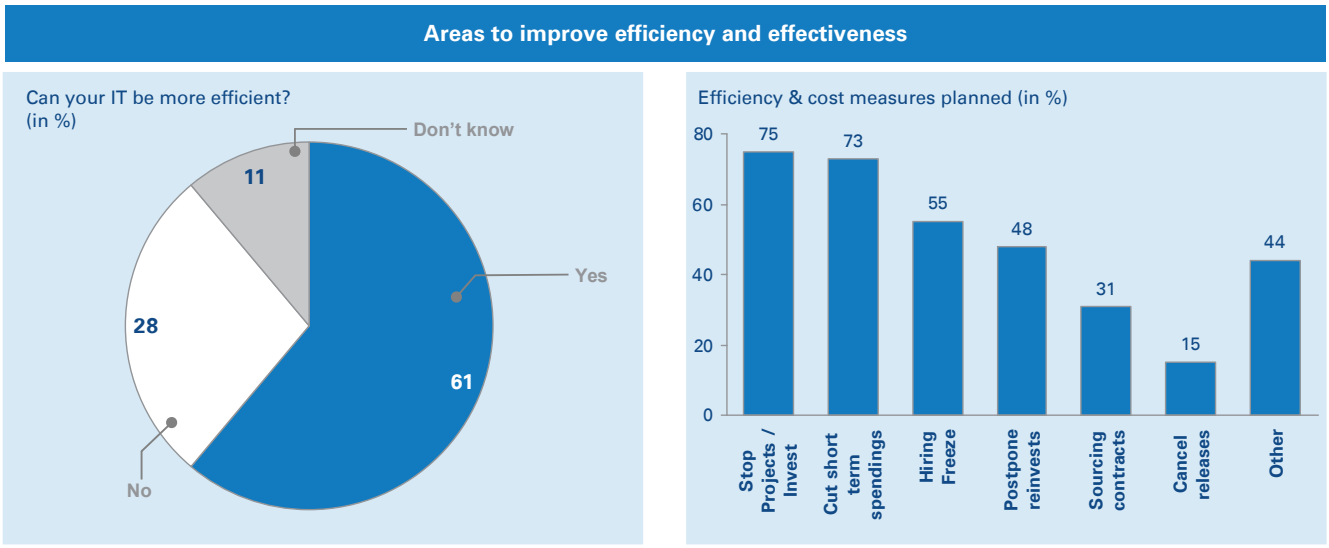
The big picture of ICT performance

Small scope performance management – e.g. cost cutting only – doesn't address all available levers for potentials and bears risks for future ICT positioning. Smart ICT performance management on the other hand consists of a multitude of levers of the CIO organization to tackle.

These levers include a set of even non-standard measures some managers might not yet thought about:

- Reducing major service levels – e.g. from 99,9999% availability to 99,99%: the resulting cost saving potential can sum up to 30%!
- Streamlining the service portfolio: now is the chance to redesign the ICT product and service portfolio by consolidating or even abandoning "over-specialized or customized" services.

Figure 1: Actions currently in focus



Source: IDG Business Media / COMPUTERWOCHE 47/2008

Source: Arthur D. Little 01/2009

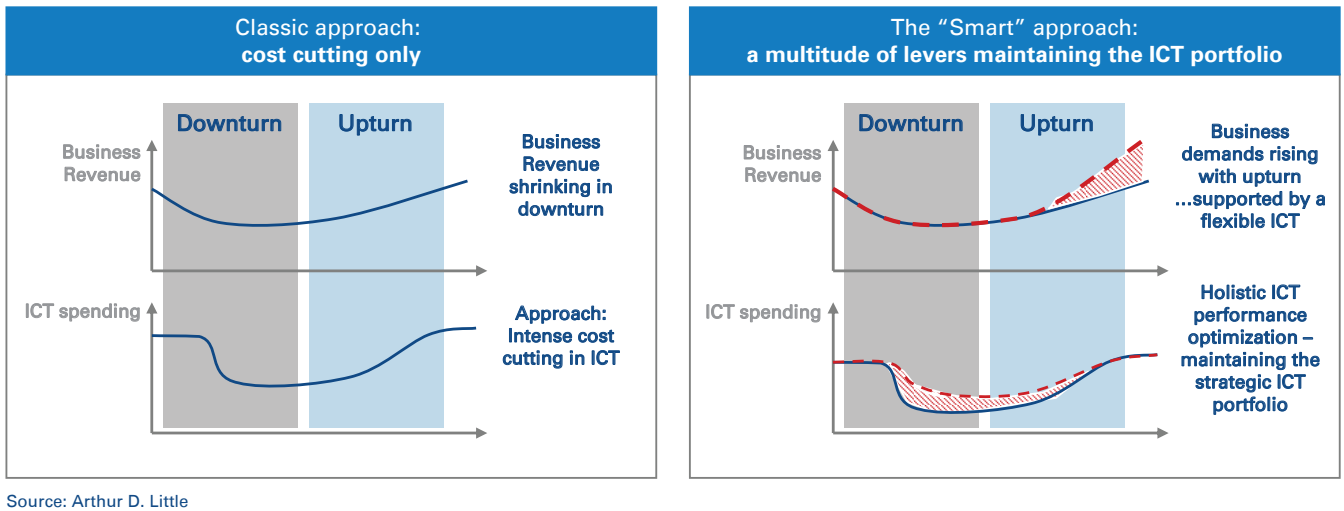
- Virtualization of services like test environments, servers and non-critical applications: Initial investments in virtualization can pay off on a short timescale when migrating resources with low business impact into virtual data centers (e.g. development environments or backup servers).
- Streamlining the ICT governance while investing in new models, e.g. setting up a centrally managed Demand Management Organization to better manage, prioritize and implement business demands.

Utilizing different levers – including those not directly focusing on cost reduction – or reinvesting some of the savings might result in a slightly lower cost cutting and therefore in less business profitability contribution (thinking in short term) but avoids a dangerous legacy and a long "speed up" face when the economy grows again (figure 2): ICT is not being cut "to death" and is able to respond to increasing or changing business needs much quicker than IT organizations that have cut their ICT portfolio much further. Recent Arthur D. Little research indicates that enterprises reinvesting 10-20% of the achieved cost reductions into carefully selected growth projects are more successful on the mid term scale compared to companies only reducing the cost positions (in terms of EBIT figures after a disruptive economic influence).

Using the right combination of levers is the key

The Arthur D. Little ICT performance radar provides a well proven set of levers to unveil improvement potentials (figure 3 illustrates an excerpt - overleaf).

Figure 2: The "Smart" approach utilizing all relevant levers



Source: Arthur D. Little

It supports ICT organizations to find the right balance of efficiency and effectiveness impacting measures and a healthy combination of cost cutting and careful invest. Besides sheer cost optimization the performance levers should address three essential areas of ICT performance to create further benefits:

- ICT as a Business, e.g.:
  Optimization of service levels, achieving sourcing excellence and re-prioritizing the project portfolio.
- ICT Processes and Organization, e.g.:
  Process standardization, resource bundling and harmonized, global demand management.
- ICT Systems and Assets, e.g.:
  Further infrastructure and system consolidation as well as network optimization.

A balanced combination of short-, mid- and long-term measures promises most sustainable results improving ICT performance. Depending on the particular situation the right levers can be identified by evaluating feasibility and expected improvement potential.

Start with an ICT performance quick audit

Companies utilizing this approach and the performance radar start with improving transparency by carrying out an ICT quick audit. Depending on the individual data transparency this audit can consist of different components, e.g. a review of the ICT cost / budget allocation, an analysis of the product portfolio or benchmarks and best practice comparison.

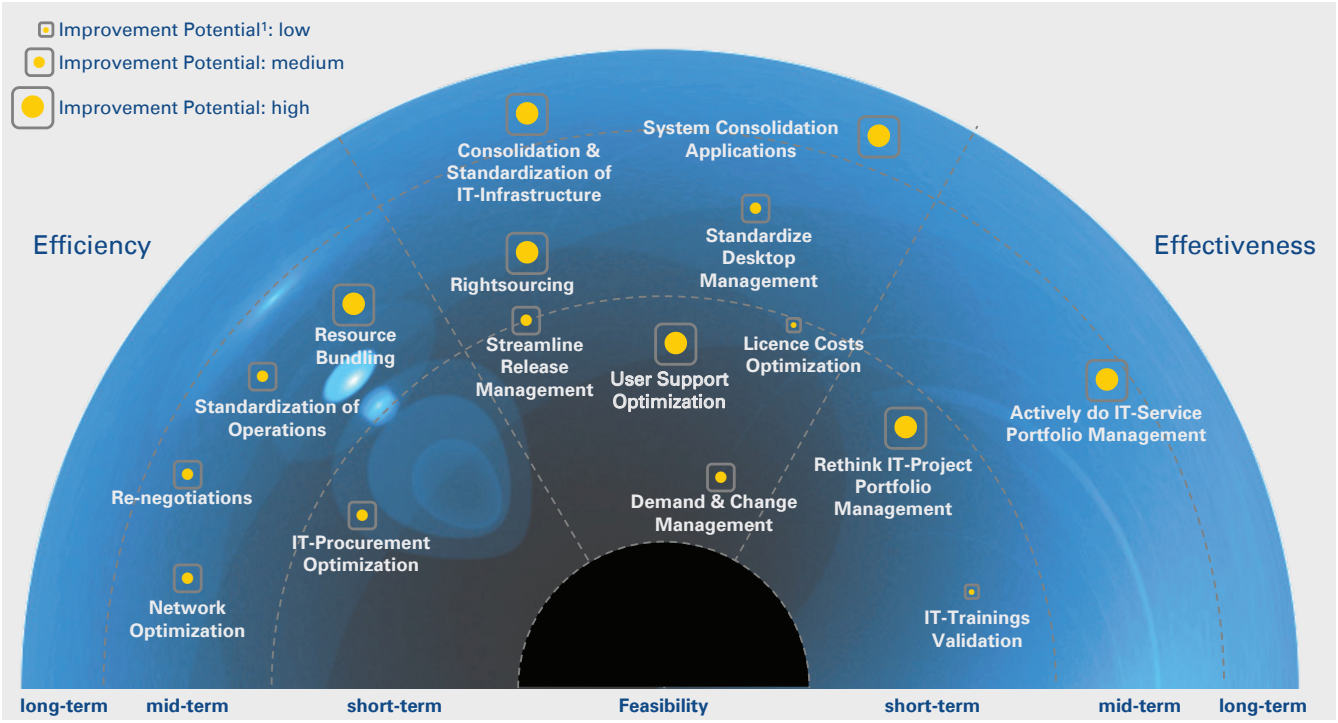
Having gained the necessary transparency the identification and prioritization of efficiency and effectiveness levers can be started: the performance radar will be adapted to the individual situation in alignment with the quick audit results. The identification of areas of optimization is accompanied by a feasibility and demand analysis as well as the elaboration of target scenarios (best case, industry average, low level).

Optimize and measure ICT performance along six value dimensions

To assess the effect of identified levers or measures a framework of six ICT value dimensions has been established by Arthur D. Little:

1. Monetary cost / benefit
2. Speed (e.g. duration of a PC order)
3. Flexibility (e.g. business driven change adaption)
4. Quality (e.g. solution rate 1st level support)
5. Innovation (e.g. new IT services / year)
6. Relationships (e.g. customer satisfaction index)

Figure 3: The Arthur D. Little performance radar



short-term = within 3 months mid-term = 3 to 12 months long-term = >12 months

[1] Improvement Potential based on Arthur D. Little's case experience

Every single improvement area can be assessed towards the value impact on one or more of these value dimensions. Using this framework ensures increasing ICT value (despite realization of cost savings) besides enabling of a direct business impact of ICT measures and sustainability of the results.

Control and adjust your measures

As a side-effect the success of even large ICT performance improvement programs consisting of different levers addressed by several measures can be continuously monitored against these value dimensions and the targeted objectives. In case of changing business needs, growing or decreasing demands or economical changes in whatsoever direction, the implemented improvement projects can easily be adjusted or additional measures derived from the ICT performance radar.

Best practice examples show: driven by the right levers an individual, customized program to improve performance leads to sustainable results reducing cost and improving ICT value and business flexibility at the same time – even in tough times.

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