

Using IT Best Practice Frameworks to Drive Enterprise Cost Reduction

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Objectives

- Introduce the concept and importance of IT Cost Optimization in supporting Enterprise Cost Reduction initiatives
- Provide an overview of how you can identify opportunities for cost reduction and cost avoidance
- Demonstrate where Best Practices can support you in every step of effective cost management of an IT Enterprise.

What is IT Cost Optimization?

What is IT Cost Optimization?

Although IT organizations have done a lot to cut costs and improve efficiency in recent years, the current economic crisis is forcing many to go even further with wide-scale cost saving – these enterprise wide cost cutting agendas are typically referred to Enterprise Cost Reduction.

IT Cost Optimization supports Enterprise Cost Reduction in identifying IT cost optimization opportunities, then creating a program structure, which will drive out and track the benefits and deliver sustainable cost savings

IT Cost Optimization addresses seven key questions:

- In functions where IT is deemed to be providing effective support to the business, is that support being provided in a cost-effective manner from an absolute (i.e. what is potentially achievable) perspective, as well as compared to peer IT organizations within the industry?
- Which IT cost elements are “driving” overall IT costs and potentially causing a drag on IT efficiency?
- If some IT costs are higher than industry benchmarks and best practices, what are the “root causes”, and how should these be best addressed?
- What opportunities exist for to reduce the cost of selected IT elements while preserving current service levels to the business?
- What is the range of savings potentially available?
- If any/all of the current business constraints on IT could be “relaxed”, what levels of cost-efficiency could be potentially realized?
- What is the appropriate set of metrics that should be employed going forward to properly monitor IT efficiency?

Utilizing Best Practices to drive IT Cost Optimization can help to identify and deliver sustainable cost savings, through methods including:

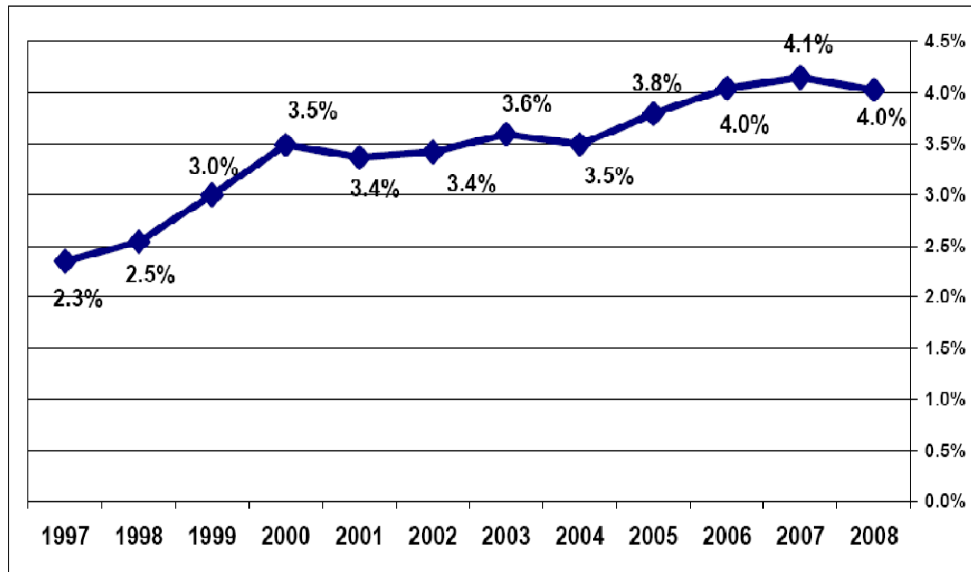
- Sourcing activities - e.g. contracts consolidation and renegotiation
- Process fitness - e.g. process redesign for asset return or improved service quality
- Demand challenge - e.g. person-time reviews – contractor usage and rates
- Technology changes - e.g. virtualization and rationalization
- Business enhancements - e.g. vendor management capabilities
- Green IT- e.g. data centre efficiency, sustainable enterprises and other energy efficiency initiatives

IT Cost Optimization covers cost reduction and cost avoidance and needs to ensure that value is retained or created.

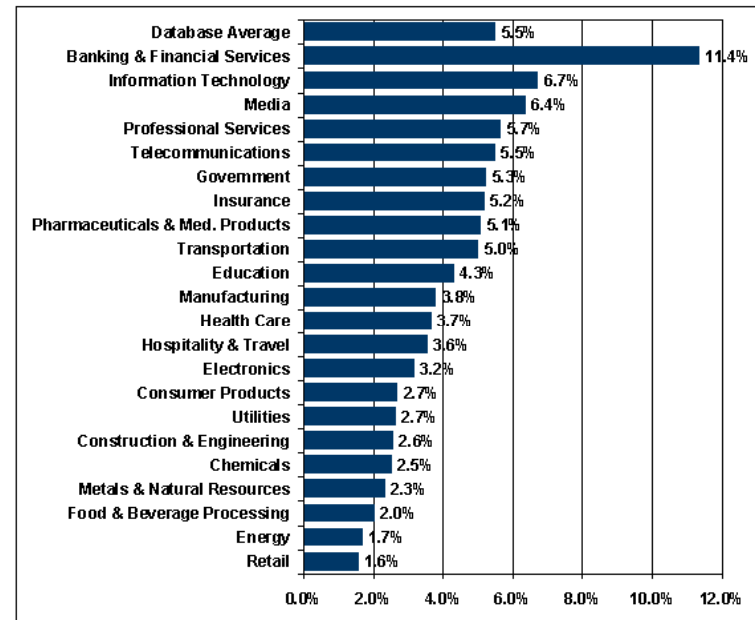
Why Managing IT Costs within the Enterprise Matters ?

IT spending represents a substantial portion of overall operating expense and revenue

Cross Industry - IT Spend as % of Revenue - 2008



IT Spend as % of Operating Expense - 2006



IT expenses are expected to grow proportionally slower than budget growth

- Industry benchmarks indicate average IT spending growth during good economic times is 2-3 %
- IT spending during tough economic times is generally flat or down by as much as 5%
- Most companies today are restructuring their cost base to shift spending from “commodity processes” into higher value add services (e.g., Analytics)

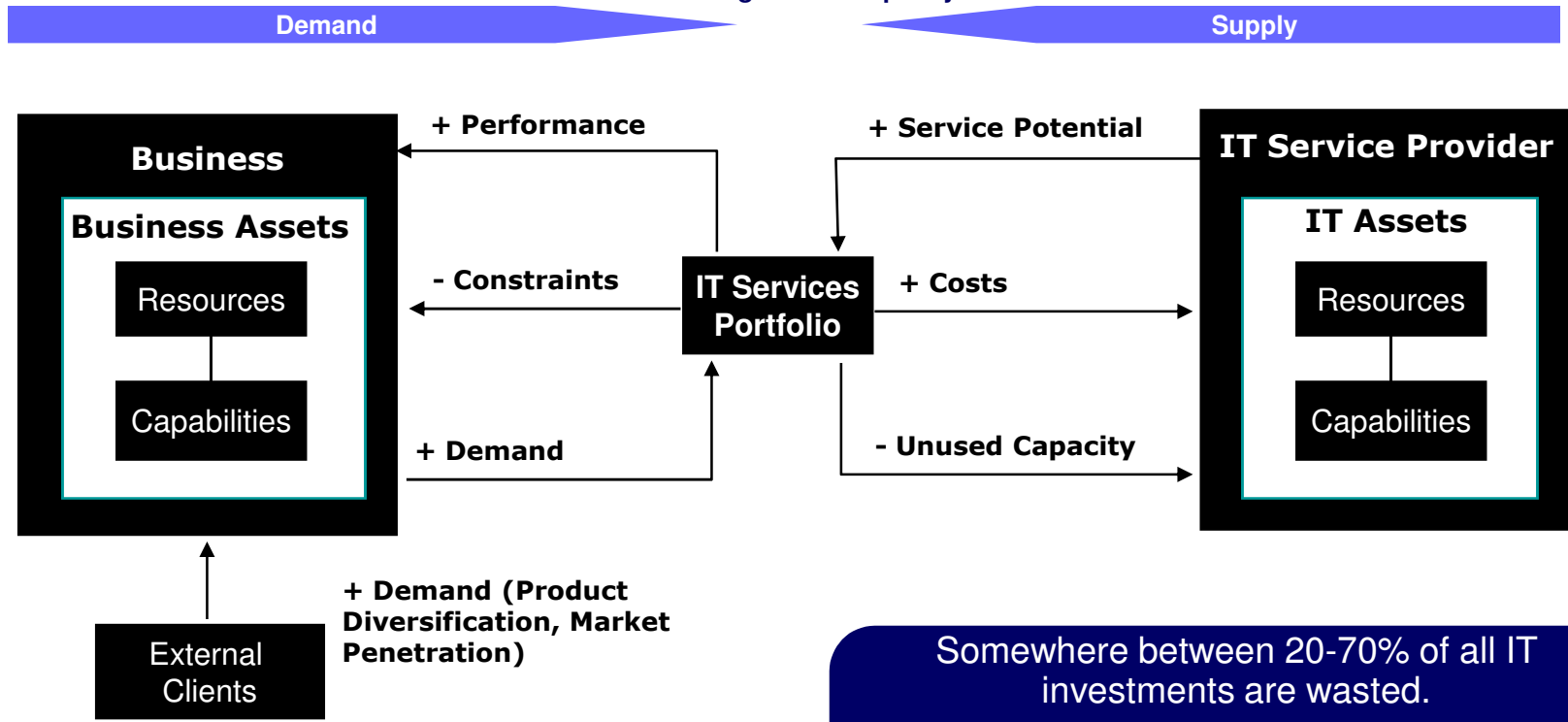
Why overall Enterprise Cost Reduction and supporting IT Cost Optimization Matters

	Description
Falling share price	<ul style="list-style-type: none"> Where a business is experiencing share price decline and needs to reduce their IT operating costs without reducing their capabilities (typically Chief Financial Officer (CFO), Chief Operating Officer (COO), or Chief Executive Officer (CEO) led)
Internal cost pressures	<ul style="list-style-type: none"> The broader business feels that they are not receiving the appropriate value from IT and wish to challenge the costs (typically CFO or CEO led)
To reinvest in IT	<ul style="list-style-type: none"> Where there is pressure on IT to deliver enhanced or additional capabilities without any/significant increase in operating costs (typically CIO or Chief Procurement Officer (CPO) led)
As a cost health-check	<ul style="list-style-type: none"> The client wants to carry out an independent health check to ensure they get good value for IT and to identify cost reduction opportunities (typically CIO or CPO led)
Ineffective cost controls	<ul style="list-style-type: none"> Typically this situation occurs where the client has reason to believe that their procurement or IT departments are not demonstrating effective cost control (typically CFO or CEO led)
M&A	<ul style="list-style-type: none"> Where two organisations are in the process of a merger and are seeking to deliver the estimated financial benefits of the merger (often private equity led)

Supply and Demand Context for IT Cost Optimization

Effective IT Cost Optimization encompasses and requires a clear understanding of a complex set of both supply and demand drivers

Managing the gap between supply and demand is central to effective cost optimization
 - balancing cost and quality.



Somewhere between 20-70% of all IT investments are wasted.
 An IBM Survey of Fortune 1000 organizations showed that CIOs feel that 40% of IT spend is of no value to the Enterprise and could be avoided.

Investment Type Context for IT Cost Optimization

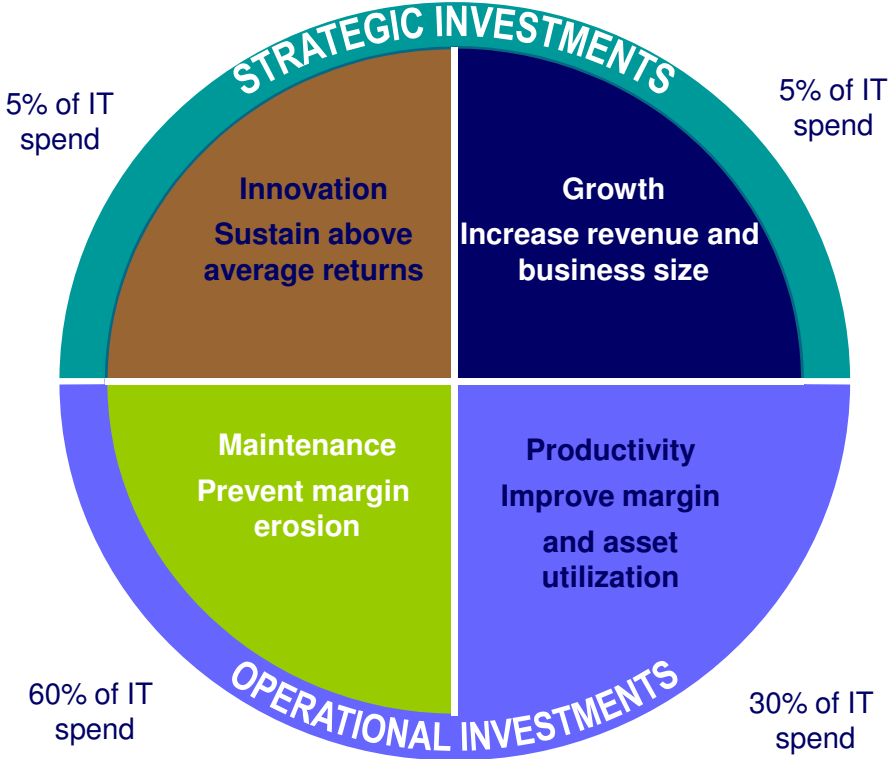
Understanding IT Spend By Investment Type Also Helps Set The Appropriate Business Context For IT Cost Optimization Efforts

Budget by expense type-typical view

Hardware & Depreciation
Salaries
Software
Outsourcing & Services
Hdw/Sw Maintenance
Communications
Consumables
Support/Other



Budget by investment type

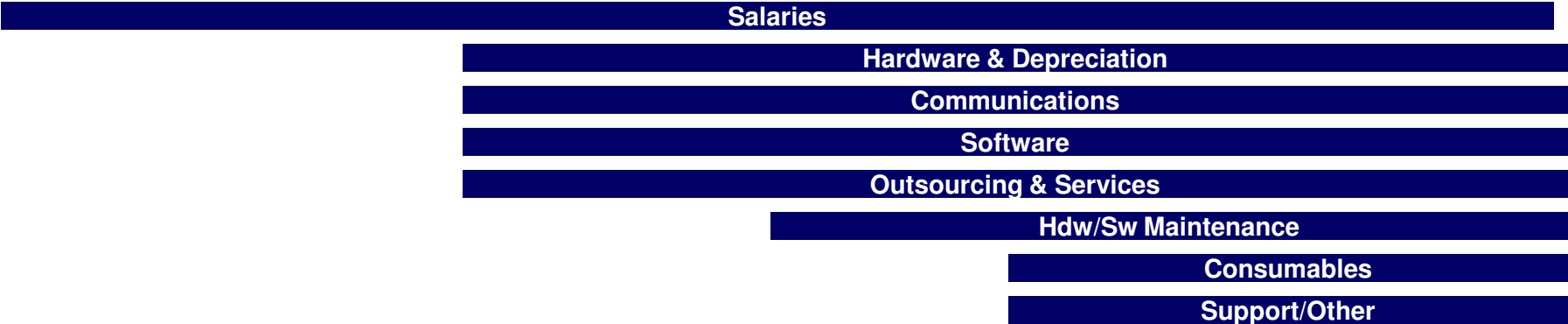
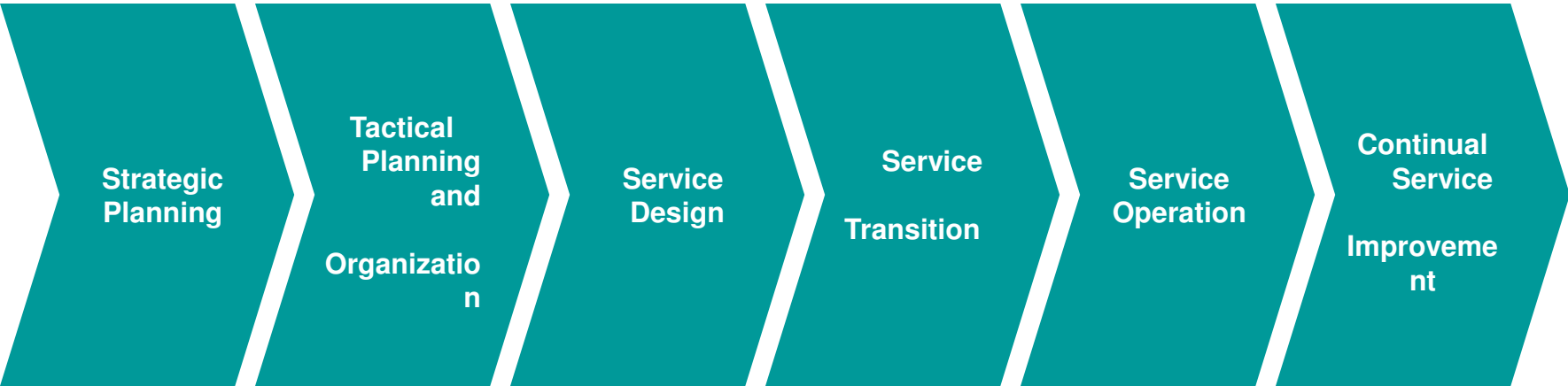


The composition of the portfolio will change in line with Business Alignment

IT Lifecycle Context for IT Cost Optimization

Understanding IT Spend By Lifecycle Stage also Helps Identify Cost Optimization Opportunities

Expense type by Lifecycle view



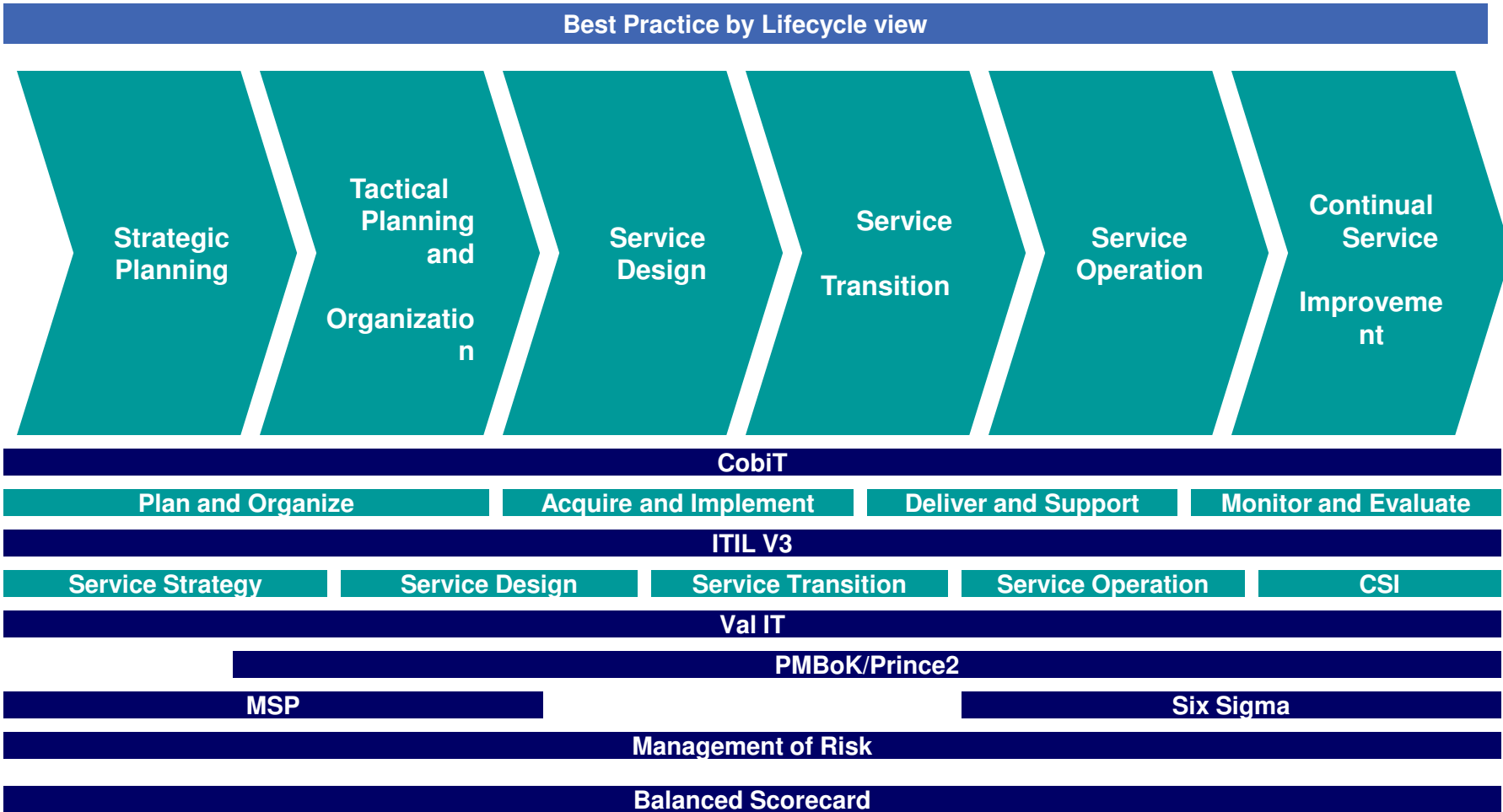
Where Can Best Practices Help?

Where Can Best Practices Help in IT Cost Optimization?

- There are a number of Best Practices and Public Frameworks available that can greatly facilitate IT Cost Optimization in a number of ways.
- These tools are easily available to organizations, but the difficulty is knowing where, when and how to apply them.
- **CobiT** – Control Objectives for Information and related Technology – a Governance Framework providing detailed objectives for the requisite activities within an IT Enterprise across four domains – **Plan and Organize, Acquire and Implement, Deliver and Support, and Monitor and Evaluate**
- **ITIL V3** – The recently updated and expanded ITIL publications now focused on the management of IT Services through their lifecycle from Service Strategy to Continual Service Improvement.
- **Val IT** – A relatively recent framework for the establishment of effective governance around IT-enabled business investments
- **Lean Six Sigma** – Business Process Optimization focused on continual improvement of process by the removal of non-value add activities and ensuring customer aligned outcomes, while also minimizing the number of defects in normal operations.
- **PMBok/PRINCE2** – De facto project management methodologies for the successful initiation, execution, and closure of projects that deliver to requirements.
- **Managing Successful Programs** – De facto UK program (project portfolio) management methodologies
- **Balanced Scorecard** – A Performance Management approach to ensuring that metrics are focused on all elements of interest to an organization i.e. Financial, Customer, Internal and Innovation. These can be cascaded to ensure all departments are supporting the overarching strategic objectives of an organization.
- **Management of Risk framework** – A comprehensive framework of guidance on how to effectively manage strategic, tactical and operational risks.

Best Practice Overview - Lifecycle Context for Best Practices

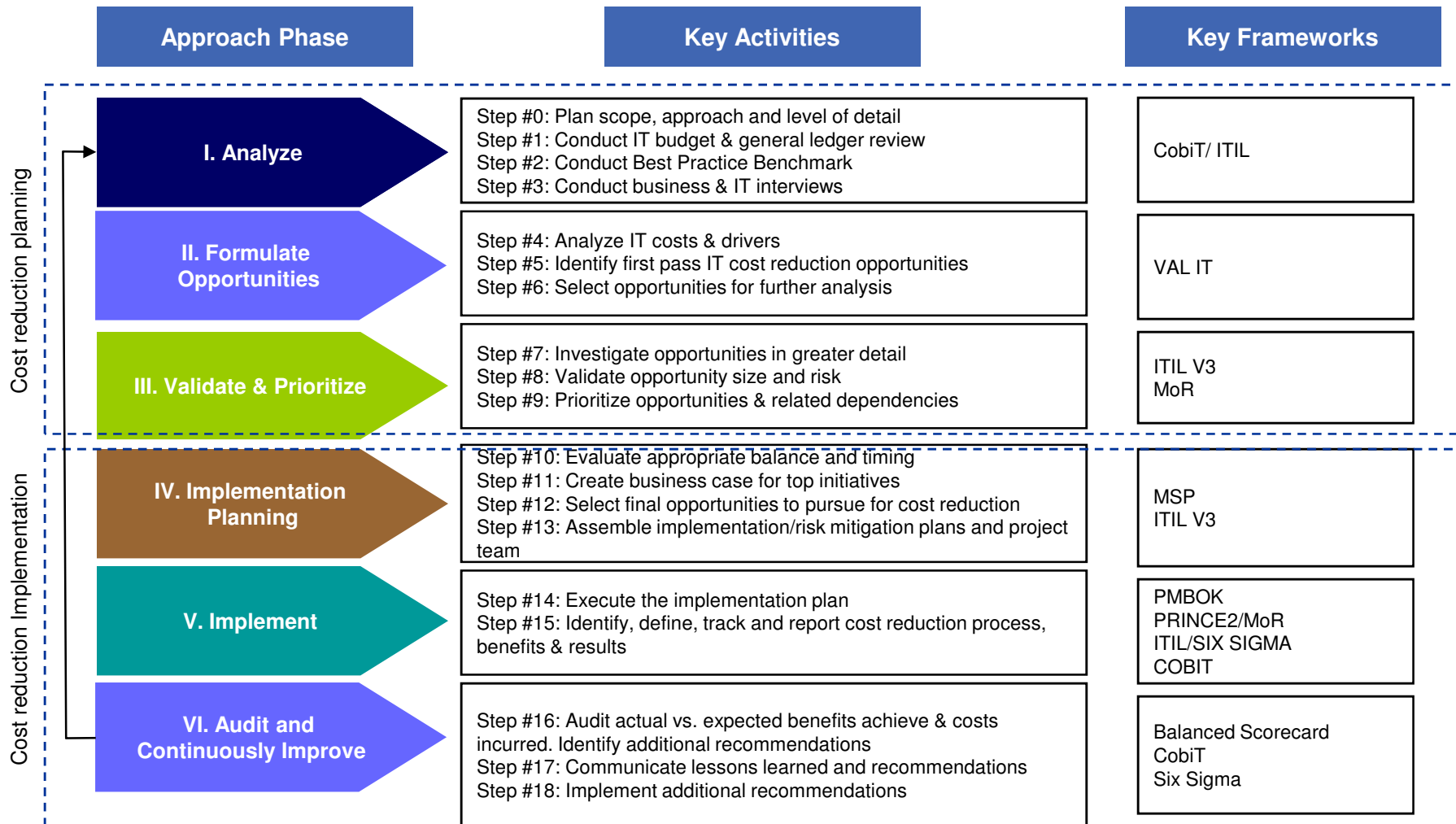
Understanding where these Best Practices support IT Strategic Planning, Transition and Delivery is critical to successful Cost Optimization



How do I approach IT Cost Optimization through Best Practice?

Where Best Practices Can Support the Six Phases of IT Cost Optimization

Best Practices Can Provide useful Portfolio and Benchmarking Tools throughout the Cost Optimization Phases



Approach Overview – Analyze – supported by CobiT

I. Analyze

The first phase of the IT cost reduction activity includes the gathering and analysis of information from budgets, previous cost studies, internal capabilities and interview responses.

Example Activities

Best Practice Benchmarking

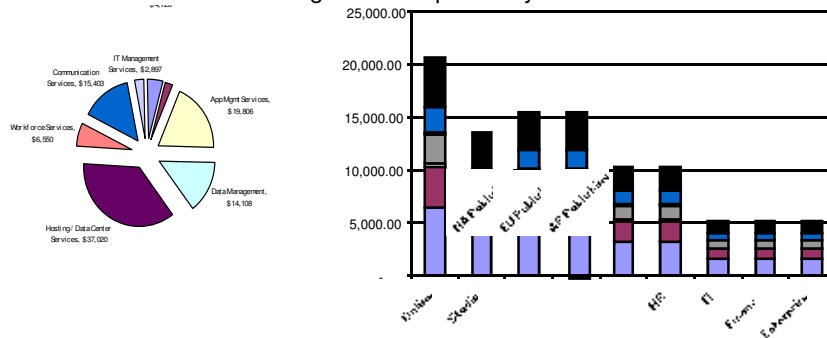
- How does the organization compare with best practice benchmarks?
- What are the organizational maturity levels around the **CobiT** framework?
- What are the greatest opportunities for improvement?
- Can we map these areas of maturity to the key areas of cost?**

Span-of-Control Analysis

- Do the spans of control appear reasonable compared to competitive benchmarks?
- How do management structures and pay grades differ by function?
- Are 'shadow organizations' revealed by analyzing dispersion of job titles and reporting structures?
- At what level are the greatest opportunities?

Functional Expense Analysis

- Where are the **key areas of cost**?
- Where are costs being incurred across the service lifecycle?
- Which functions have highest costs for certain key expense line items?
- Which functions provide the greatest opportunity for cost reduction?
- Which cost elements change most responsively with revenue and volume?



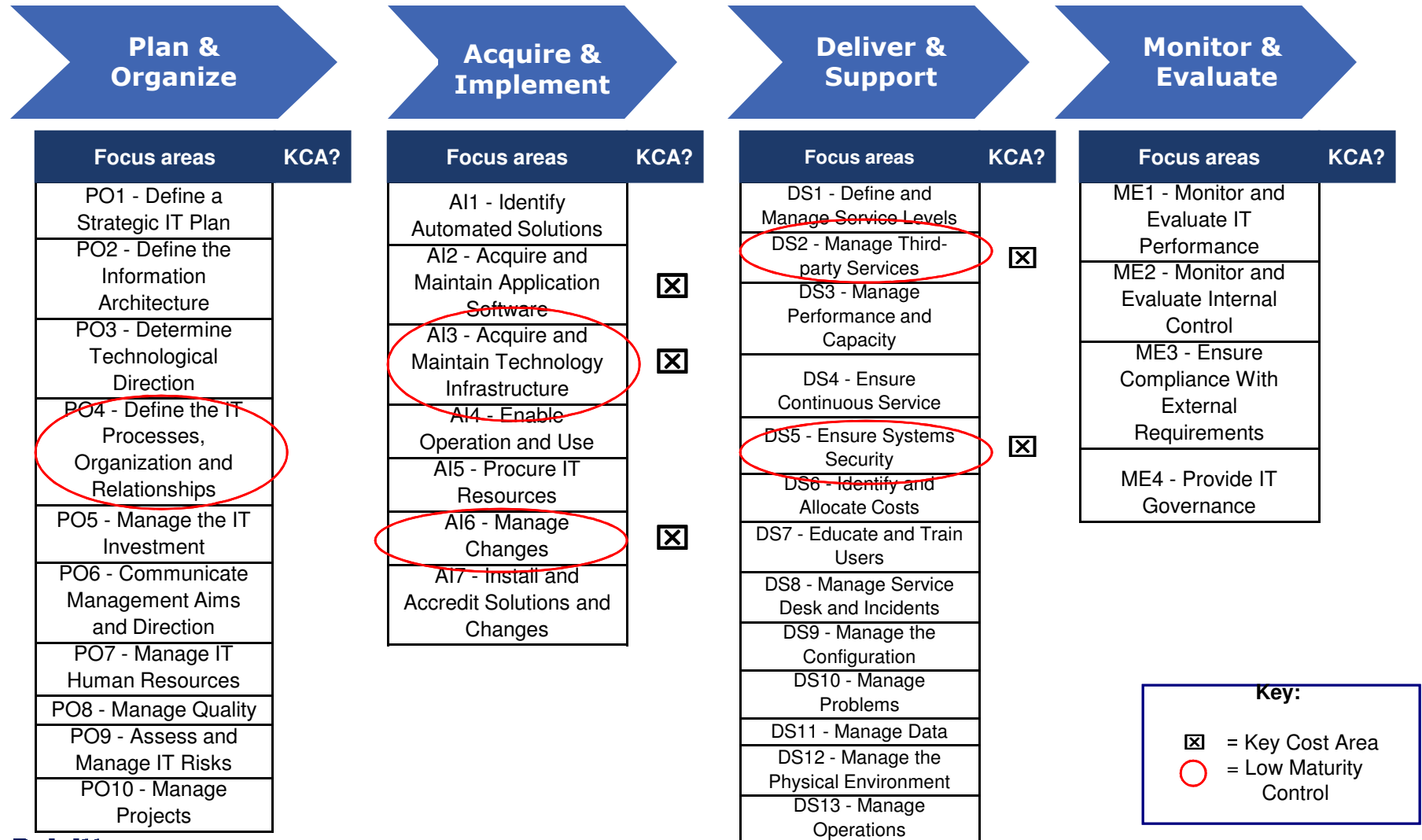
IT Outsourcing Analysis

- Are there opportunities to save by outsourcing key functions?
- What is the cost-benefit analysis of outsourcing activity?
- What are some of non-value adding activities?
- Are there alternatives to current support model?

These analyses guide and prioritize deeper analysis while making full use of available data

Mapping CobiT Maturity to Key Areas of Cost

Mapping key cost areas to levels of maturity can provide an immediate 'heat map' of cost/immaturity correlation.



Approach Overview – Formulate Opportunities – Supported by VAL IT

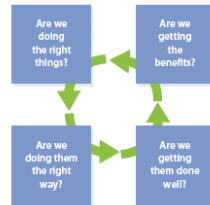
II. Formulate Opportunities

During this phase an initial set of cost reduction opportunities is generated based on the outputs of the analysis phase and the identification of cost drivers.

Example Activities

Assess Four “Ares” of VAL IT

- Are we doing the right thing?
- Are we doing them the right way?
- Are we doing them well?
- Are we getting the value from them?



Allows an organization to identify where the opportunities for cost reduction fall – Strategic, Tactical, Operational and Value Management.

For example, we might be doing the wrong things very well, therefore needing to review the IT Strategy and Governance Model to ensure effective Business Alignment, Investment Management and Portfolio Management.

Document and Categorize Opportunities

Proposed Opportunity	Objectives	Speed	Impact	Investment	Sustainability	Risk
IT Portfolio Management	Eliminate or re-align projects which don't conform to overall strategy	●	●	●	●	●
Asset rationalization	Rationalize and retire redundant software licenses	●	○	●	●	●
Supplier Performance	Negotiate new contracts with major vendors for price reductions	●	○	●	●	●
Data Center Optimization	Optimize datacenter by consolidation of servers, storage and networks	●	○	●	●	●
Outsourcing	Reduce operating expense by leveraging external vendors' greater scale and experience	●	○	●	○	●
Change/Release Management	Reduce number of failed changes and significant amount of business disruption, rework, and other associated costs.	●	○	○	●	●
Resource Strategy	Reduce expense by better allocation of resource	●	●	○	●	●
Application Consolidation	Reduce expenses by eliminating applications not used	●	●	○	○	●
Shared Services	Create shared service model to get improved cost efficiency	●	●	○	●	●
Desktop Operations	Reduce expenses by eliminating excess PC and evaluate buy vs lease	●	●	○	●	●

● Unfavourable ○ Favourable

These analyses start to form the basis of the quick wins and longer term more sustainable cost reduction opportunities.

Approach Overview –Validate and Prioritize– Supported by MoR and ITIL V3

III. Validate and Prioritize

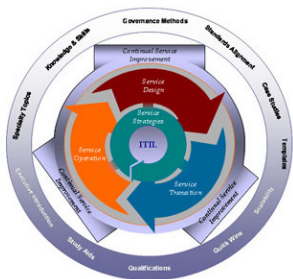
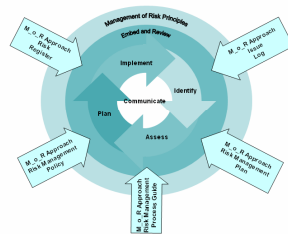
The phase validates identified opportunities through a more detailed level of analysis and estimates relative size and risks.

Once validated, opportunities are prioritized and are ready for Implementation Planning.

Example Activities

Strategic Alignment, Risk Management, and Benefits Estimation

- Opportunities need to be assessed for their alignment with strategy, their associated risks, and the anticipated benefits they will deliver.
- MoR provides a framework for initial analysis and subsequent management and mitigation of risk.



- ITIL v3 Service Strategy covers Service Portfolio Management and Strategy generation to allow for Strategic Alignment.
- Continual Service Improvement provides guidance on Performance Management and Benefits realization. I.e. Intangible and Tangible Benefits Capture, Metrics for screening opportunities, NPV, IRR, and Balanced Scorecards.

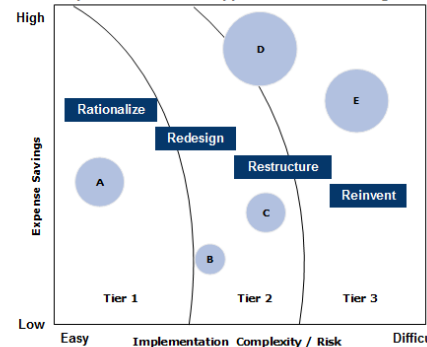
Opportunity Prioritization Framework

- Opportunities that have been carried across from the previous phase will be validated and prioritized accordingly based on the discussed criteria.

Opportunity (Examples)	Shared Service Centre	Migration of transaction processing	IT Dev rationalisation	Trading desk consolidation	Risk Mitigation
Contribution to strategy	●	◐	○	●	◐
Potential size of benefit	◐	●	●	○	●
Ease of implementation	○	◐	○	●	●
Risk	●	●	●	○	◐
Speed of realisation	●	○	●	◐	●
Operational Impact	●	○	○	◐	○
Priority	1	2	1	2	2

- Identified opportunities will be prioritized or tiered based on the implementation complexity and benefit size.

Example Cost Reduction Opportunities "A" through "E"



Size of bubble is scaled to the size of opportunity

Approach Overview –Validate and Prioritize– Supported by MoR and ITIL V3

III. Validate and Prioritize

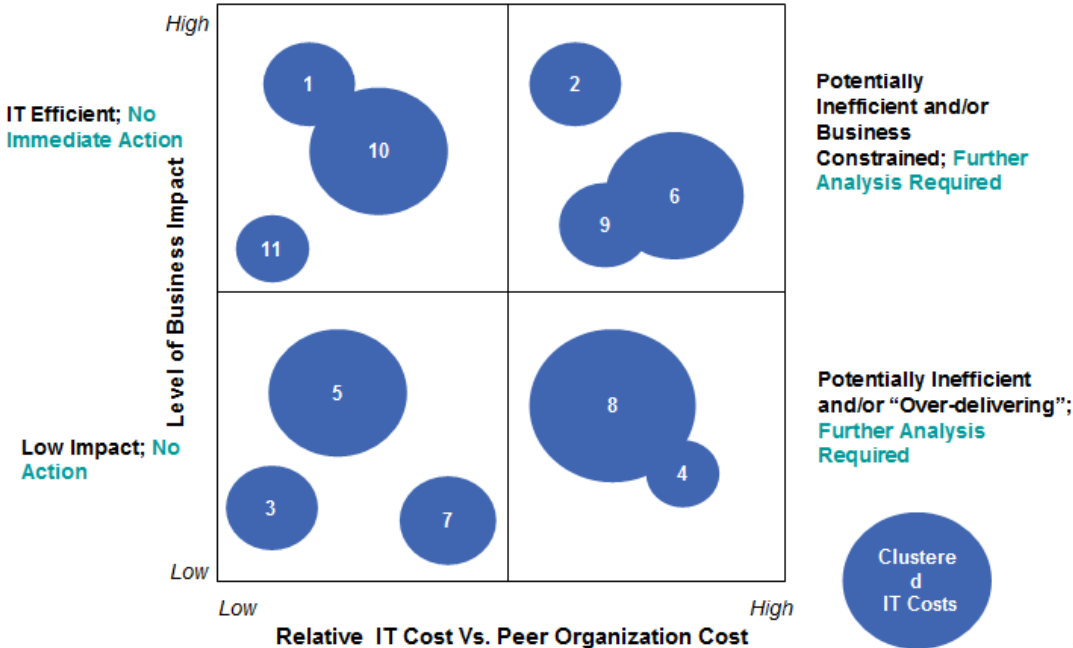
The phase validates identified opportunities through a more detailed level of analysis and estimates relative size and risks.

Once validated, opportunities are prioritized and are ready for Implementation Planning.

Example Activities

Opportunity Prioritization Framework

Focused IT “Peer” Benchmarking Can Provide Valuable Insight Into Prioritizing Target Areas For Follow-up Investigation



Approach Overview – Implementation Planning – Supported by MSP, VAL IT and potentially all other Frameworks

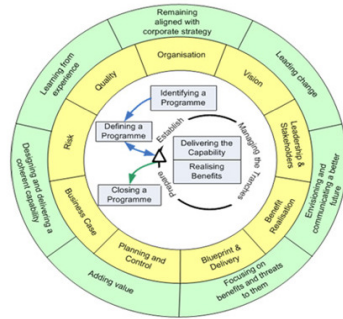
IV. Implementation Planning

During this phase of the IT Cost Optimization Approach planning for the implementation of the identified opportunities, including identification of the Best Practices to be leveraged.

Example Activities

Identification of the Reduction Strategy and Business Case Development

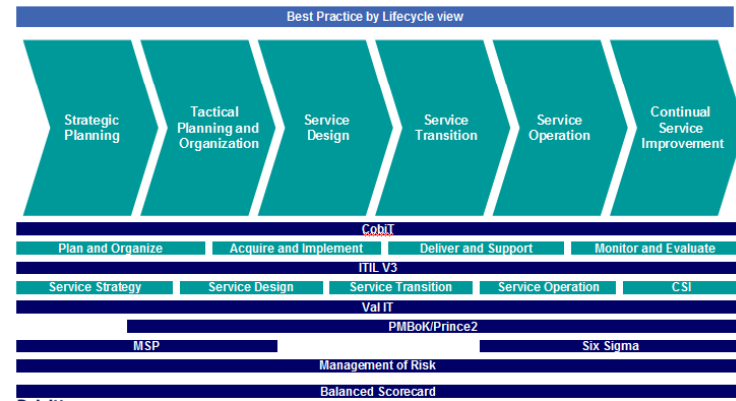
- Reviewing the opportunities for change, the opportunities and identifying similarities, common areas, overlaps and interdependencies to establish program plan.
- Steps consist of
 - identifying a Program
 - defining a Program
 - managing the tranches of projects
 - closing a Program.



- Before a program can start, a Business Case should be developed to ensure that moving forward the Investment Management and Value Governance principles of VAL IT are adopted.

Selection of Best Practices (if possible)

- Based on the type of opportunities to be implemented, Best Practices should be identified as resources to ensure effective value delivery of benefits and to deliver to expectations.



Once the Business Case has been approved, and the Best Practices have been identified, resource allocation and project initiation can start.

Typical Cost Reduction Strategies

In our experience, organizations want to focus on short term cost reduction opportunities leads us to concentrate on these cost categories and these types of strategies:

Cost Categories		Typical Cost Reduction Strategies		
Operating Model	Structure	Review Staffing / Skills Mix	Review Mgmt Layers / Span of Control	Establish Shared Services
	IT Process Efficiency	Review Principles, Policies and Procedures	Reduce Low Value Added Activities	Improve IT Competencies
	Business Alignment	Control Discretionary Activity	Rationalize Projects	Improve Demand Management
Applications Development and Maintenance		Rationalize Application Portfolio	Control Discretionary Activity	Consolidate Centralize Resources
Data, Network and Infrastructure Architectures		Optimize Licensing	Optimize Infrastructure Utilization	Consolidate Infrastructure
Sourcing, Compensation and Other		Improve Sourcing	Review Contract Compliance	Review Compensation
		Improve / Consolidate Contracts	Identify Tax Savings and Tax Credits	Review Contractors & Offshore Resources

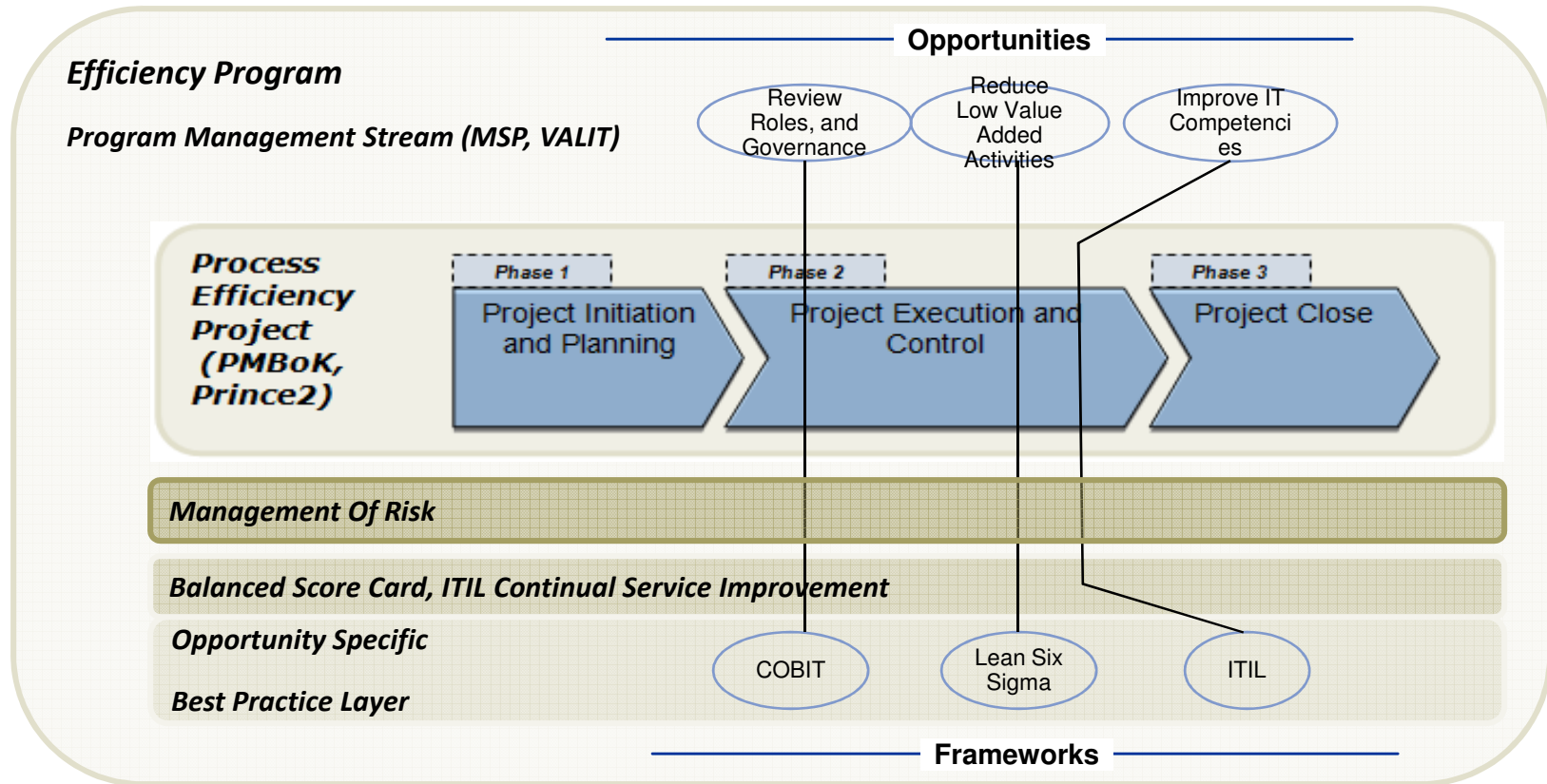
Approach Overview – Implement – Supported by MSP, VAL IT and potentially all other Frameworks



During this phase of the IT Cost Optimization Approach opportunities are implemented using Best Practice guidance around project management and specific Best Practice guidance where possible.

Example Activities

Implementation of Opportunities using Best Practice Principles



Approach Overview – Audit and Continuously Improve – Supported by CobiT, ITIL CSI, and Balanced Scorecard

VI. Audit and Continuously Improve

During this phase Audits are performed to ensure that the benefits articulated in the Business Case have been delivered and that Continual Service Improvement is being undertaken

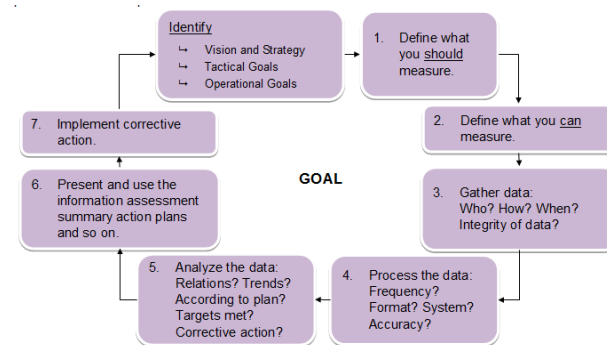
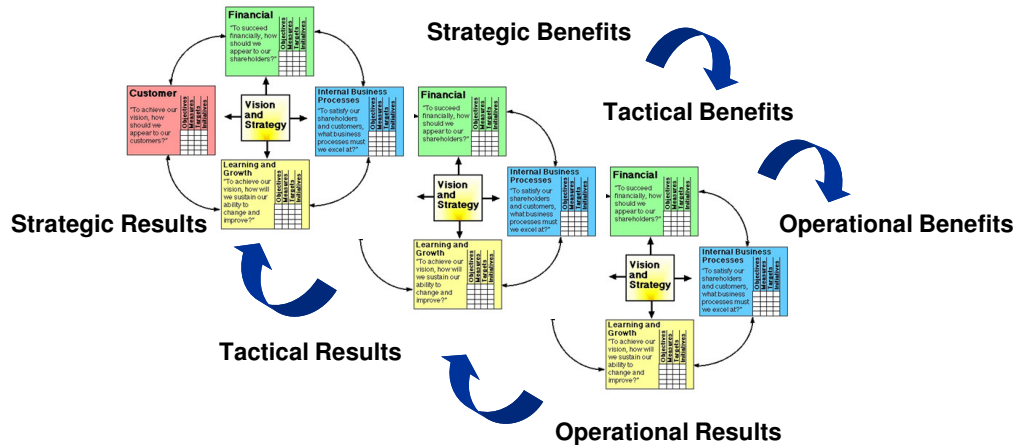
Example Activities

Audit

- Ongoing audits should be undertaken to assess the ongoing effectiveness of the implemented recommendations and opportunities.
- COBIT is typically the framework used in internal audits but will depend on the anticipated benefits.
- The delivery of value can be audited across all dimensions of the IT Organization – Strategic, Tactical, and Operational. The capture management, and measurement, of the benefits for subsequent scrutiny can be facilitated by cascading Balanced Scorecards.

Continuously Improve

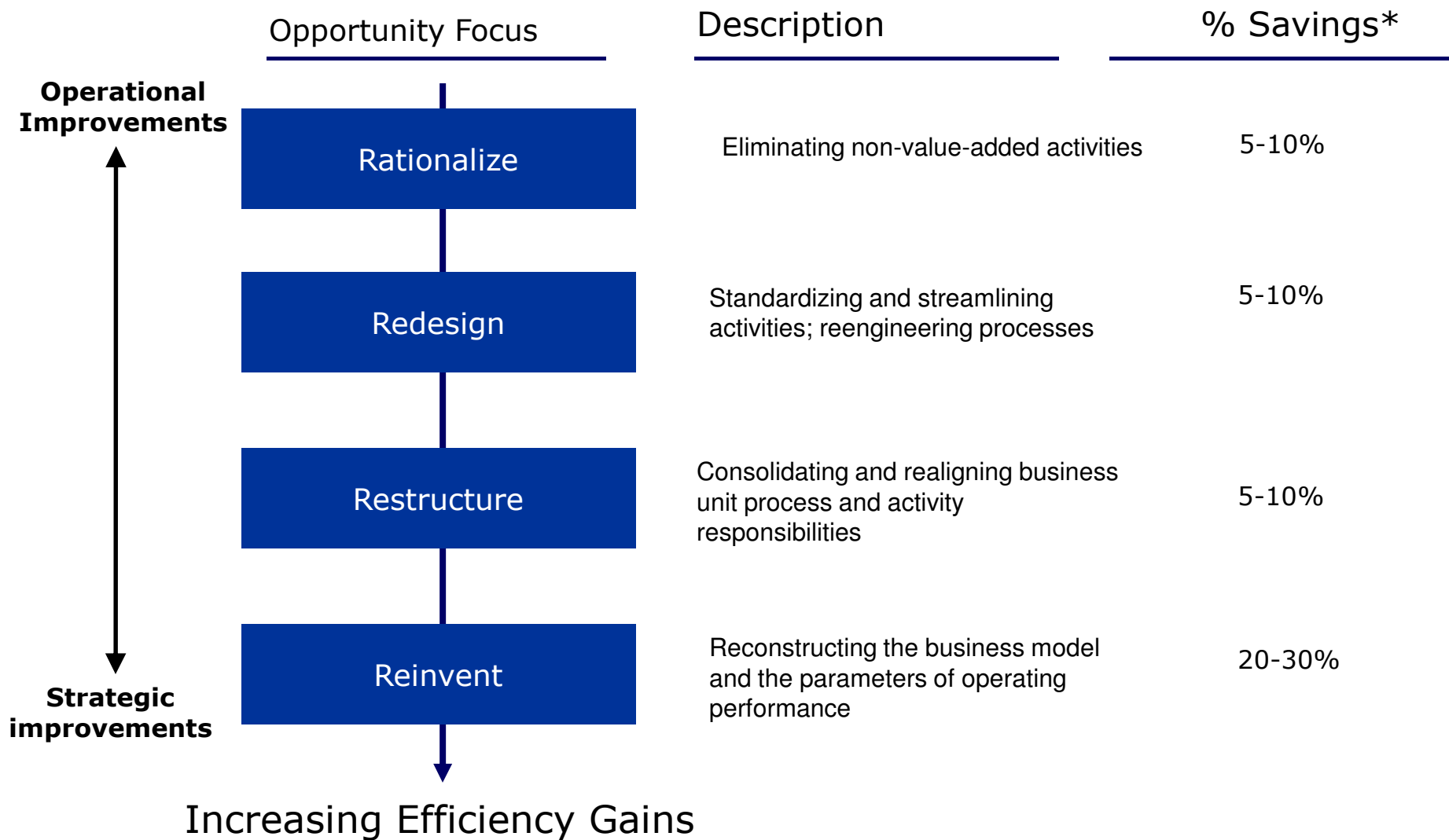
- Establish proper metrics early on to increase visibility of cost components and reduce irresponsible spending in the long run
- These metrics must be established early on and measured throughout the cost reduction exercise.
- **“You cannot manage what you cannot measure”**
- The ITIL CSI 7 Step Improvement Model Can be leveraged to continually improve the realized benefits.



These activities underpin best practice principles around effective Value Management and Continuous Service Improvement

Lessons Learned

Lessons Learned – Cost Reduction Strategies Vary Greatly in Complexity but Best Practices Provide Great Guidance for Successful Implementation

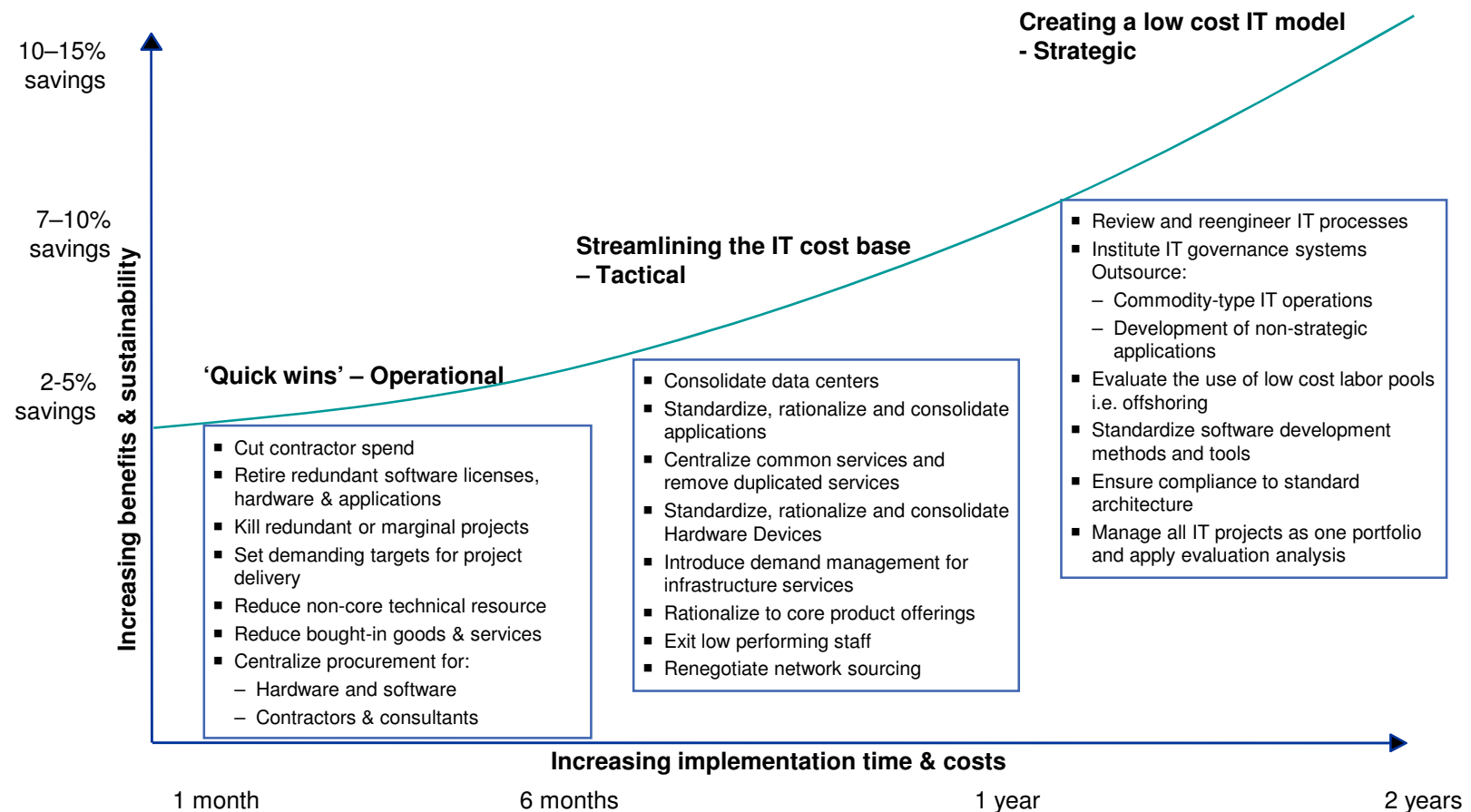


* Relative savings estimates based on Deloitte experience

Lessons Learned

Our cost reduction engagements have typically identified and yielded a consistent range of savings and the timing required to achieve these savings.

Strategic Wins deliver larger more sustained cost reduction opportunities but are typically more complex. Quick Wins help to build momentum and foster organizational change through early delivery of value.



Lessons Learned

Key Lessons

1 Designate a senior level “Cost Czar” to break down organizational barriers and stigmas

*Cost reduction wins no congeniality contest and cannot be treated with a “flavor of the month” attitude. Consistency and commitment from the highest level will drive success. **IT COST OPTIMIZATION HAS TO START IN STRATEGY***

2 You cannot manage what you do not measure

Establish proper metrics early on to increase visibility of cost components and reduce irresponsible spending in the long run

3 Best Practices can be leveraged easily to deliver and support cost savings or cost avoidance initiatives

The difficulty is wading through the myriad frameworks and tools and applying the theory at the right times.

4 Be pragmatic; overcome the angst of execution

*While a good fact base is critical to making informed decisions, resist the temptation of endless analysis and benchmarking. Think of the voluminous studies gathering dust on the shelf that were never implemented. **A FORMAL, STAGED APPROACH IS NEEDED.***

5 Creativity and communication go a long way

Make it stick by tying to the higher cause or “what’s in it for you” (e.g., “green initiatives”) to help change customer and employee behavior

Executive quotes from “the front”

“... ECM task team was very effective in its strategy formulation and planning, but active support from the top was sporadic. We ended up going through a lot of cycles getting all the stakeholders on board ...”

“... We hit initial targets but after one year lots of costs crept back into the organization ...”

“... We did not realize how hard it would be to get the whole organization behind us...”

“... We beat the analysis and benchmarks to death. We were overly optimistic during the assessment and ended up falling short of publicly-announced cost reduction targets ...”

“... Real benefits were slow to materialize and enthusiasm to implement cost improvement fizzled out very quickly” ...”

Summary

Summary

Overall, IT Cost Optimization can seem daunting, but it all comes down to common sense and discipline around “simplification”. Best Practices are there to help you, the trick is to know how, where and when.

- 1** IT Cost Optimization is important to IT departments as pressure increases to deliver more value with less resources. The first step on this journey is to understand your existing expenditure profile across the enterprise.
- 2** Tangible and demonstrable IT Cost Reduction **IS** achievable if a structured approach to implementation and value management is followed and Senior support is secured from Day 1.
- 3** The more strategic, foundational changes in IT Departments typically deliver the larger, more sustainable cost reduction opportunities – but are higher profile, higher risk and require more effort to ensure success.
- 4** Best Practices can be leveraged to deliver and support cost savings or cost avoidance initiatives. Knowledge and experience of these tools and frameworks is required to ensure the most pertinent areas are applied.
- 5** As IT is a strategic enabler, Cost Reduction Strategies have to be aligned with the overall strategy of the business. Efficiencies therefore realized in IT will impact the bottom line.

Sample Industry Publications

Procter & Gamble started using best practice principles in 2006 and has seen a *6% to 8% cut in operating costs* and a 15% to 20% reduction in technology personnel company wide.


The **Louisiana Gas & Electric Energy LLC** has reported that the company typically *saves at least 25% in IT costs* after leveraging best practices as part of a cost reduction exercise.

The **Avaya Inc.** implemented ITIL which has helped the telecom *provider cut their IT budget by 30%* while also helping to *comply with Sarbanes-Oxley legislation*. Their CIO now sits on the board, and *IT is now viewed as part of the business*, and not just an operational cost.

Caterpillar has been able to *grow its business exponentially* in the past five years with *only 1 percent increase in its IT budget*.

Johnson and Johnson saw a *cost savings and avoidance of more than \$30 million* in 2005 alone by implementing a “Process Excellence” methodology based on Best Practice principles.

Deloitte's specific experience in IT Best Practice

 <p>Design and implementation of ITIL-based processes and supporting technology solutions for event, performance, availability management and job scheduling</p> <p>Resulted in a highly-available IT environment achieved through the development of processes and technology for monitoring and job-scheduling.</p>	<p>Swiss Global Investment Bank ITIL-based Service and Asset Mgmt. requirements analysis and enabling-technology selection, resulting in a selected technology accepted by all major stakeholders. The ITIL processes analysed were Service Desk, Incident, Problem, Configuration and Service Level mgmt., for the various operating models including desktop support, back-office operations and front-office trading support</p>	 <p>Development and integration of processes within existing Centres of Excellence.</p> <ul style="list-style-type: none"> ▶ Conceptual support model development ▶ Communications strategy and plan ▶ Proposed location or locations ▶ Detailed Country/EU reviews ▶ Definition of SAP ↔ Support organization transition
 <p>Review of all Service Support and Service Delivery processes within IT. Designed, built and implemented technical change management processes and associated toolset using Peregrine ServiceCenter technology.</p>	 <p>ITIL process and service desk migration strategy for major German conglomerate. Using the ESM process model, examined existing processes and service desks. Recommended process migration strategy to single instance service desk software.</p>	 <p>Design and implementation of a global system management solution replacing locally designed and implemented tools and processes with a virtually centralized solution.</p> <p>Reduced operating costs through centralisation and standardisation of Availability and Performance Management processes and tools, based on ITIL.</p>
 <p>Review of IT processes and change requirements as part of a Tivoli implementation. Problem management processes were addressed through distributed monitoring.</p>	 <p>Development and operation of the Support Group to assist business during large implementation. Developed, rolled out and performed the service desk function, incident, problem and change management.</p>	 <p>Standardised IT Service Management processes - improved IT support and enabled cost reduction.</p> <p>Implemented a 24x7 Global Service Desk and Centres of Excellence (CoE). The Service Management processes deployed were Incident, Problem, Change, Configuration, Service Level and Release, all based on ITIL best practices.</p>
<p>German Global Investment Bank Analysis of management reporting and all ITIL process areas. IT Budgeting, Cost Management and Time Reporting achieved through the assessment, definition and implementation of standardised processes and tools.</p>	 <p>Design and Rollout of a full Enterprise Systems Management solution to manage distributed infrastructure and applications. Extensive process re-engineering around ITIL Service Support and Service Delivery.</p>	 <p>IT Environment Methodology (ITEM) assessment for systems management processes. Produced a gap analysis per ITIL process, identifying and prioritising any process improvements within the operations support organization before the critical go-live period.</p>
 <p>Centre of Excellence Strategy</p> <p>Design and implementation of processes, governance and infrastructure for Central Services Organization supporting Content Management. ITIL and MOF were incorporated in deliverables adhering to the pharmaceutical industry's quality assurance requirements and Aventis' methodology</p>	 <p>Development of the organizational strategy for Centres of Excellence; development of the IT operations conceptual model; and development of the transition and implementation plans.</p>	 <p>Development and implementation of Service Level Management (including Service Level Agreements, Operating Level Agreements and Contracts) in accordance with the ITIL framework.</p>

Questions?

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