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White Paper

Targeting your IT spend

With the deepening recession in New Zealand and global economic downturn likely to worsen before it improves, cost-cutting will intensify in many organisations. The IT budget can be one of the first to fall under the sword but making cuts to IT investment aross the board is not the most effective way to improve an organisation's bottom line in tough market conditions.

Gartner research[1] shows that many of the potential IT cuts open to organisations are risky, require investments or take a long time to complete and, therefore, may not be worth undertaking for short-term savings. Not only that, a key finding of the research was that "cutting IT is often an irrational choice, because IT supports end users who can suffer from diminished service and performance".

The fact is most IT departments already run fiscally tight operations and any excess fat was trimmed long ago. Companies assess IT investments based on business value – and have been long before this current downturn – and IT systems are now integral to a business's revenue generating operations. In short, as McKinsey [2] points out, simplistic cuts, applied across the board, are counter productive.

They may in fact result in more lost revenue than the savings they bring by endangering critical business priorities to customer service. The last thing an organisation needs is to alienate the customers keeping the company afloat on turbulent waters by failing to deliver required service levels. And as bleak as the economic conditions look currently, it won't last forever. Cutbacks may leave an organisation short of critical capabilities when things begin to improve.

This is not to say that IT should get a free pass when an organisation is forced to tighten its belt. CIOs and IT managers should – and in most businesses do – continually look for ways to operate more efficiently and reduce costs. The current economic conditions, however, give them an opportunity to go a step further. When the profits are flowing relatively easily in good economic times, it can be tempting to avoid tough decisions about under-performing systems. A downturn quickly changes that attitude. It provides a chance for the organisation to take a more strategic view and make decisions on where and how to invest in IT to best deliver savings and, ideally, generate more revenue, both in the short-to-medium term, and the long term.

Laying the groundwork for change

Before making changes to the IT investment it is important that the organisation understands the options and has analysed how proposed changes will impact on the business. This means that IT and business executives must work together to identify opportunities. Streamlining logistics processes and inventory management systems, for example, can deliver immediate returns as well as ongoing cost savings.

1 "Cost Cutting in IT to Cope With Economic Slowdown", Kost, Claps and Di Maio , Gartner, March 2008.
2 "Managing IT in a Downturn: Beyond Cost Cutting", Kaplan, Robert and Sikes, McKinsey Quarterly, Fall 2008.

Reviewing pricing structures and analysing sales information can improve pricing, which in turn reduces lost revenue due to unnecessary discounting. The identification of these opportunities can be done internally by small groups of staff from finance and IT roles combining their knowledge of best practice business processes with the analysis of data.

This is not always straight forward, as information in many organisations is is spread across different business units or sitting in disparate IT systems – an opportunity in itself to cut costs by consolidating data in one IT system to improve decision making and reduce the amount of administrative resources required.

Another option is to utilise some of the methodologies available to analyse business processes and identify efficiencies, such as The Open Group Architecture Framework (TOGAF) or the Supply Chain Operations Reference (SCOR) model.

The Open Group Architecture Framework provides a comprehensive approach to the design, planning, implementation, and governance of an enterprise information architecture and can identify changes to systems that will align them better to business objectives. The SCOR model benchmarks supply chain processes against the best performing companies in a specific industry. Recommendations based on this analysis often leads to both an immediate cash release and ongoing cost savings.

IT investments that make a difference

Acccording to McKinsey, technology investment is required to produce near-term revenue and efficiency gains. Areas with good potential for savings include:

- Integrating information such as that housed in CRM data warehouses, contracts databases and compensations systems. This would provide better visibility and identify savings. McKinsey notes that poor pricing discipline is endemic in complex business-to-business transactions. The IT systems can play an integral role in capturing lost revenues by linking or integrating information silos
- Analysis of supply chain processes and adoption of sales and operations planning through the use of Business Intelligence. This can optimise logistics and inventory management and can reduce the amount of safety stock required, lowering inventory costs without compromising service levels
- Improved back office systems such as Human Capital Management to optimise overhead and performance management.
- Consolidation of all portal development and management into a single organisation. This is rated by Gartner research as having high returns potential for medium risk.
- Standardising administrative applications on a single ERP suite for the entire enterprise for administrative functions (finance, HR, indirect procurement) as a foundation for implementing shared service. According to Gartner, while acknowledging technical risks and a high initial investment, this still has high potential benefits during an economic slowdown. Although the time to benefits is often greater than 12 months, this strategy will place the organisation in a much better position when the downward economic cycle ends.

Calculating the ROI

In a recession, the business case justifying additional IT investment has to be drum tight. Organisations have far less margin for error and assumptions on the ROI have to be backed by hard data. Tools are available to assist with the development of a business case – the Shark Finesse tool for example, can calculate the ROI based on standard methodology that is focused on the business benefits – although it may be necessary to involve outside experts to facilitate this process.

In the end there is no single right answer, but research supports the conclusion that decision makers should resist pressure to compensate for falling revenue by blindly slashing IT expenditure. This may actually cause profits to drop faster. Instead, they should analyse their systems strategically to drive out more business value and make decisions that were relegated to the too-hard basket when times were good. Smart IT investments now can deliver both the short and medium term gains to get a business through tough times, but also position it to reap the rewards when the inevitable upturn finally arrives.

Soltius New Zealand Limited
www.soltius.co.nz
Auckland
ph 09 571 7100
Wellington
ph 04 472 1897
Email
info@soltius.co.nz