



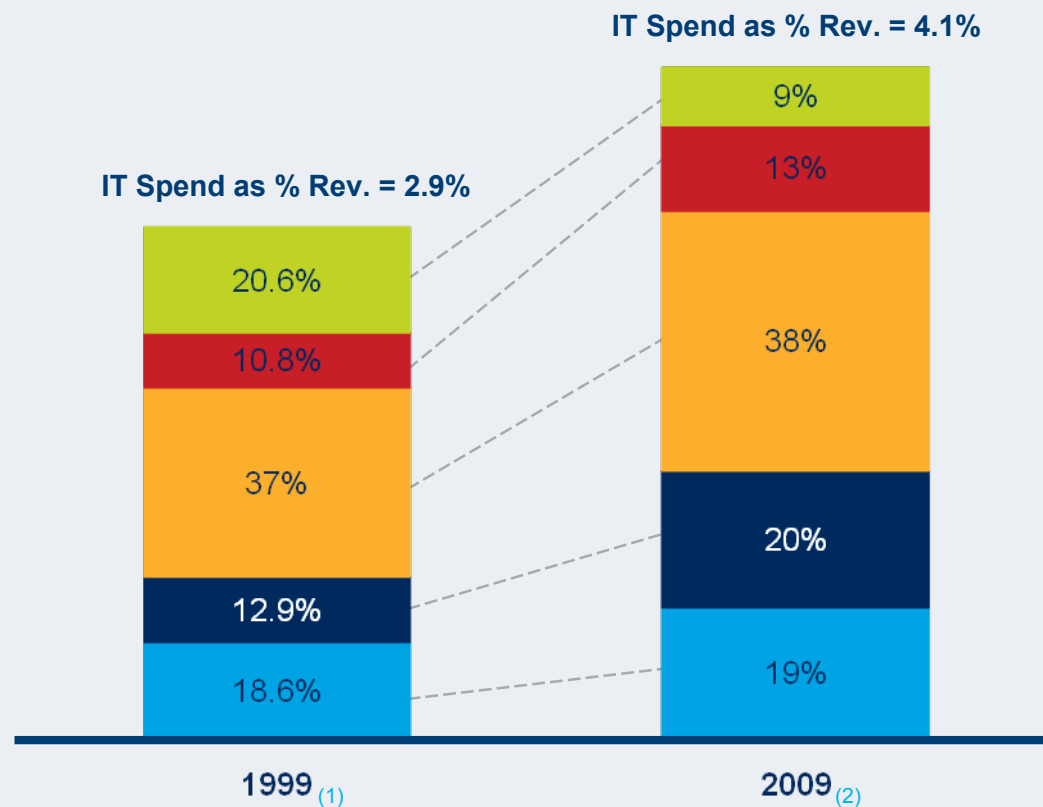
# Cost Cutting without compromising quality

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Steve Watmough, CEO, Xantus Consulting

# The past decade has seen an increased focus on IT spending across all industry sectors...

## IT Spend for 1999 vs. 2009



### IT Spend Highlights

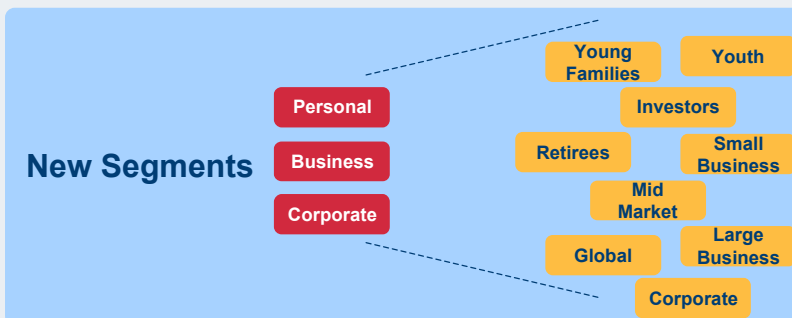
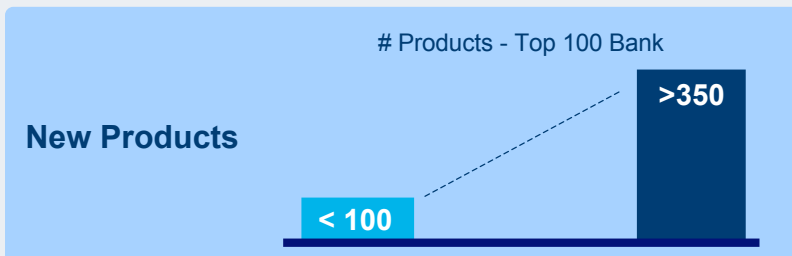
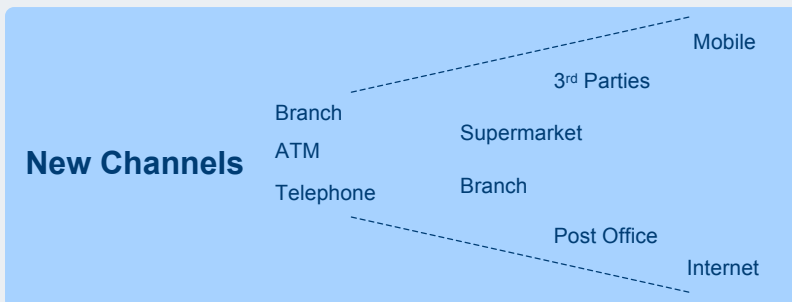
- ➔ IT Spend as % Revenue has increased by more than **40%** over last ten years
- ➔ Increase in spending is seen across all cost categories including hardware, software, IT staff and external services
- ➔ IT spending per employee has almost **doubled** in ten years from £4,340 to £8,370
- ➔ IT staffing spend is highest, as there is 'more to be done' coupled with higher demand for specialist IT skills

(1) Source: Gartner Spend Reports 1999, N America  
(2) Source: Gartner Global IT Spend Reports 2009

# ... and IT has risen to deliver on strategic business agendas

## Example from Financial Services

### Increased business complexity over 10 years...



### ... has led to growing demand from IT

- ⇒ An accounting system for a UK Retail Bank serves customers across different business units and:
  - ⇒ is built on 1800 programs with 6000 modules and 5 million lines of code
  - ⇒ manages 20 million accounts
  - ⇒ supports 8-20 million transactions per day
- ⇒ A leading provider of Credit Cards uses a transaction processing system which:
  - ⇒ supports more than 40 billion transactions a year
  - ⇒ has peak capabilities of supporting 10,000 messages per second
  - ⇒ connects 1,300 member and merchant endpoints in the US, in order to authorize, clear and settle over \$1 trillion annually

# This paradigm shift in IT's contribution to business produces challenging priorities for CIOs in current economic downturn

Take 20% out of the IT cost base..

Deliver 10% improvement in service levels..

Drive new revenue and business growth opportunities..

Rationalise and consolidate the IT headcount..

..while improving support to existing business operations

..while developing innovative IT solutions to the business

..while improving quality and predictability in IT development and operations

..while developing workforce capabilities to support strategic business initiatives

# Overcoming the stock market crash of 2000, IT has progressed to redefine businesses and improve bottom-line

## IT is transforming business models and creating new revenue generation opportunities

"In 2000, the value of worldwide B2B internet commerce sales transactions surpassed \$433 billion, a 189% increase over 1999 sales transactions. Worldwide B2B internet commerce is projected to reach \$919 billion in 2001, followed by \$1.9 trillion in 2002. In 2003, the market will increase to \$3.6 trillion, and at the end of 2004, worldwide B2B internet sales transactions are forecast to reach **\$6 trillion.**"

- *OUT-LAW News, 2004*

## IT is transforming consumer landscape

"For the full year, 2006 online retail spending reached \$102 billion, a 25% increase on 2005. This is a confirmation that e-commerce is now for real and significantly impacts the retail industry."

- *Marketing 2.0, 2007*

## Adoption of the web is meteoric

"At the start of the decade there were only 300 million people using the internet; by the end of 2008 there will be more than **1.5 billion.**"

- *Internet World Stats, 2008*

## Proven correlation between IT spend and profits

"We did nearly £1bn of business in our dot-com business last year... It's profitable and it's rapidly."

- *Sir Terry Leahy, CEO, Tesco, 2006*

## E-commerce success

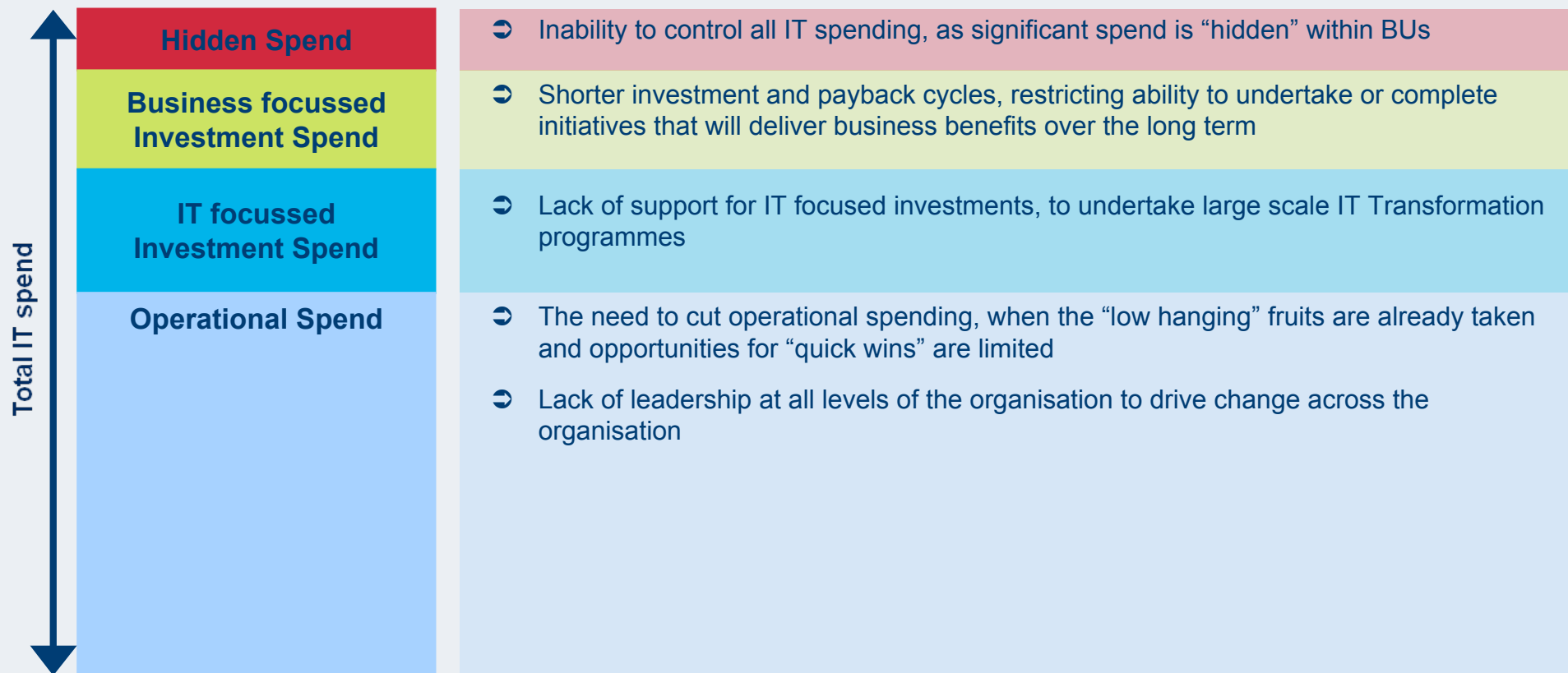
"Total sales of goods at eBay.com in 2007 reached \$59.35 billion, up 13.1% from \$52.47 billion in 2006."

- *eBay Inc, 2007*

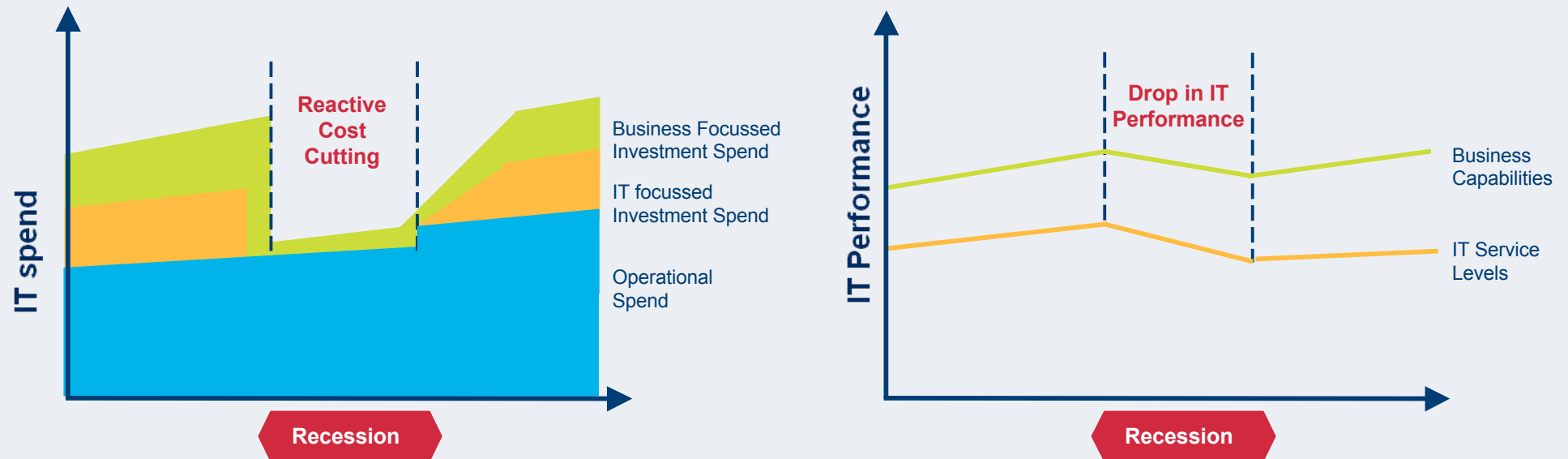
Over the last decade, IT has emerged from a back office function supporting an "**exclusive few**" to a **strategic business enabler**, delivering powerful business solutions to the masses.

# With conflicting demands over their resources, CIOs now face complex issues for cost cutting..

There is increasing pressure on CIOs to tackle the cost of IT, and deliver budget cuts. Complex issues that often present themselves are:



# Reactive cost cutting will have a negative impact on IT services and produce unsustainable results



## Reactive efforts towards cost cutting put existing IT - business relationships at risk

- ➔ Reduction in Business Focused IT spend could endanger business priorities by preventing improved business capabilities to be developed, and create capability gaps
- ➔ Cost Cuts on IT Focused Investment Spend impacts planned efforts to improve service delivery. This leads to a drop in the QoS delivered to business
- ➔ As investments are not made to optimise IT resources, problems get stored up for the future. This leads to an increase in future Operational Spend

# A strategic approach is required to reduce costs without compromising on IT performance

**2 Tackle business demand** with a controlled and transparent portfolio and prioritisation process. Take a strategic approach to cost cutting to ensure problems are not stored up for the future.

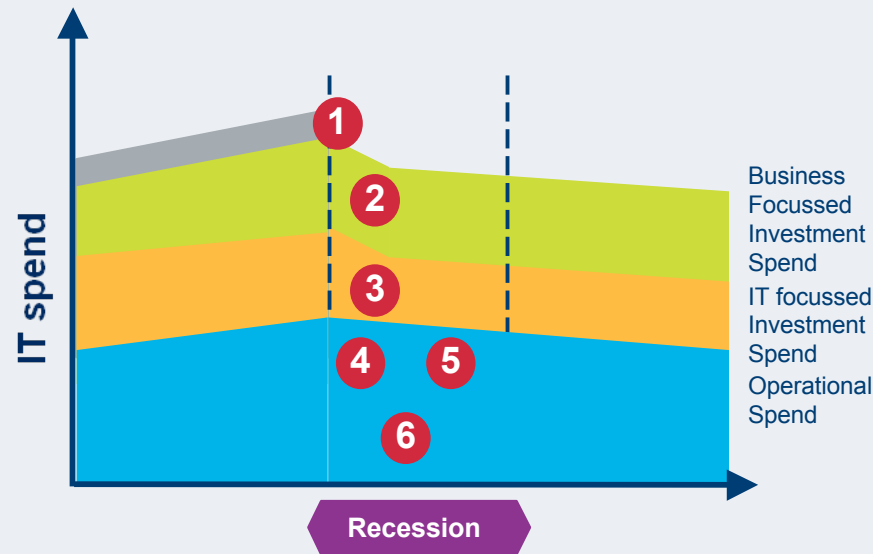
**4 Reduce sourcing spend** by renegotiating existing contracts, partnering with suppliers to create efficiencies through standardisation of services, introducing competitive tension such as multi-sourcing or non exclusive service provision

**1 Minimise IT spend hidden within business units, 'shadow' IT expenditure.** Consolidate and rationalise services to reduce cost

**3 Re-evaluate in-flight projects,** their assumptions, predicted benefits and the associated outcomes, and stop projects with a negative ROI

**5 Review Operating Model** in terms of in-house and outsourced capabilities and strengthen retained organisation with the right combination of resources and processes, with the appropriate levels of skills, capabilities and governance

**6 Reduce support costs** through consolidation of assets, decommissioning legacy systems and re-platforming applications



# The three approaches to maximise the benefits of cost cutting are:

## IT Cost Reduction Approach:



**IT Cost Minimisation**

### IT operates at Optimal Costs

Focus on rapid cost take out by confronting and minimising cost pressures to deliver quick benefits.

**Performance Improvement**

### IT delivers High Performance

Focus on improving performance such that the IT function operates with excellence and delivers high value services to the business.

**Sourcing Effectiveness**

### IT Sources Effectively

Focus on redesigning the delivery model to exploit off shoring and outsourcing options and leverage shared services.

# IT cost cutting in action



## IT Cost Minimisation : Birds Eye iglo Group (BEIG)

### Situation

Formerly owned by Unilever, BEIG was acquired by a UK-based private equity group Permira in 2006. Post acquisition, BEIG was faced with the challenge of establishing an independent IT services capability to avoid substantial penalties for failing to migrate from the parent company systems.

### Complication

- ➔ Business Critical - High business dependency on ICT systems created an urgent need to create a new 'fit-for-business' IT environment to support its entire European operations
- ➔ Resource constrained - No internal IT staff to undertake separation activities
- ➔ Time bound - Missing deadlines for IT separation carried significant financial penalties

### Approach

1. Defined target state applications and infrastructure architecture, carefully managing its exit from the parent company's architecture
2. Undertook a rigorous sourcing exercise, to select and contract with a service provider to deliver target state architecture within the required timescales
3. Rationalised legacy portfolio of 400+ applications
4. Replaced the in-country SAP system with a consolidated enterprise SAP solution

### Benefits

- ✓ BEIG now has a flexible, scalable IT solution that it needs to tackle the demands of its industry, while owner Permira, can easily flex the company to exploit new markets and territories
- ✓ Rigorous supplier management and risk control enabled BEIG to achieve cost savings of over £18 m
- ✓ ICT costs are less than 1% of revenue, significantly below the manufacturing industry average of 2.4%

# IT cost cutting in action



## Performance Improvement: UK Retailer

### Situation

The retail group needed to increase its IT capability and drive cost improvements across the business. These translated into cost pressures on the IT function. It undertook a change programme to improve the overall effectiveness of the IT function

### Complication

- ➔ Previous history of merger and subsequent acquisition by a private equity firm had left the organisation with fragmented IT landscape and legacy organisation, applications and processes
- ➔ Split ownership between a private equity firm and a private investor meant significant efforts were required to convince multiple stakeholders before proceeding with any transformational projects

### Approach

1. Redefined its IT organisational structure and operating model, setting out the rules of engagement with third party and potential suppliers
2. Improved business engagement and IT business alignment through resource augmentation and integration with EA function of the business
3. Adopted ITIL processes and standards to improve service delivery capability
4. Restructured existing sourcing agreements to improve commercial terms

### Benefits

- ✓ The organisation successfully reduced its IT spend by £28 million over a three year period, whilst improving its overall service delivery capabilities to the business

# IT cost cutting in action



## Sourcing Effectiveness: Highways Agency

### Situation

Tasked with keeping England's traffic flowing, improving journey times and ensuring information is accurate and accessible to all, the Highways Agency needed to refocus its internal ICT systems, services and infrastructure to ensure the Agency can carry out its business as a network operator

### Complication

- ➔ High risk - Reputation of high profile organisation at stake to deliver a practical , cost effective solution to its ICT needs; need to deliver within a tight and cost bound time-frame
- ➔ Obsolete contracts - External providers contracted when the Agency had a different business base
- ➔ Lack of service orientation - ICT function was technology based rather than service orientated

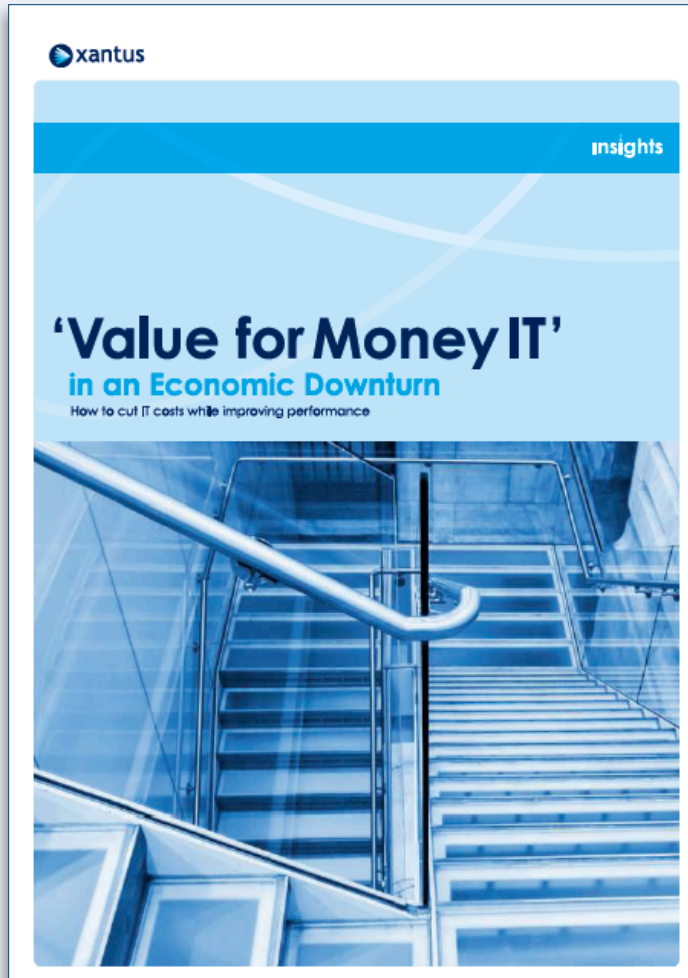
### Approach

1. Reviewed sourcing options for all ICT Services including applications, data centre, desktop and telecommunications procurement
2. Drove ICT procurement based on 'competitive dialogues' with suppliers and 'shared service' practice
3. Renegotiated existing contracts in alignment with Agency Procurement Strategy, OGC leading practice and industry leading practice
4. Ensured technology based solutions were delivered in 'business speak' rather than 'techno talk ' to allow business users to better articulate their needs

### Benefits

- ✓ The organisation reached a five year outsourcing agreement worth £75 million which delivers £4M annual cash savings, equating to 20% efficiency gain over the life of the contract
- ✓ The IT function evolved into a service orientated operation, better equipped to deal with the Agency's evolving role.

## What experts say...



For more on our viewpoint on IT  
Cost Effectiveness visit:

[www.xantus.co.uk/IT Cost Cutting](http://www.xantus.co.uk/IT Cost Cutting)