

# november ag

## IT Cost Reduction

What we learned from a good fairy

Summer, 2009



# To cope with the tightrope walk of IT cost reduction some magic would be great – wouldn't it?



Once upon a time there was a CIO. His name was Charles Lever, a reliable and good man. One night a good fairy turned up and spoke to him: *“Dear Charles, as I have experienced you as a good man and very gifted CIO I would like to reward you. I trust an entire and very well organized IT department to your care; it will be of high benefit for the company and all stakeholders will be very pleased. You can let it grow but watch out that it doesn't get too big. When you cut some parts it will grow again, just be careful not to destroy the roots and main branches. Cherish it well and you will be royally rewarded“ ...*

Time passed, the economic climate grew tougher and a new CEO, Mr. Chuck Risis came on board. Charles Lever was forced as everybody else to reduce IT costs drastically.

In a grey and cold **november** night the good fairy got back to Charles and asked: *“How is your IT department doing?”* *“I save and cut”* the CIO answered *“but I do not know how far I can go and this gives me quiet some headache.”*

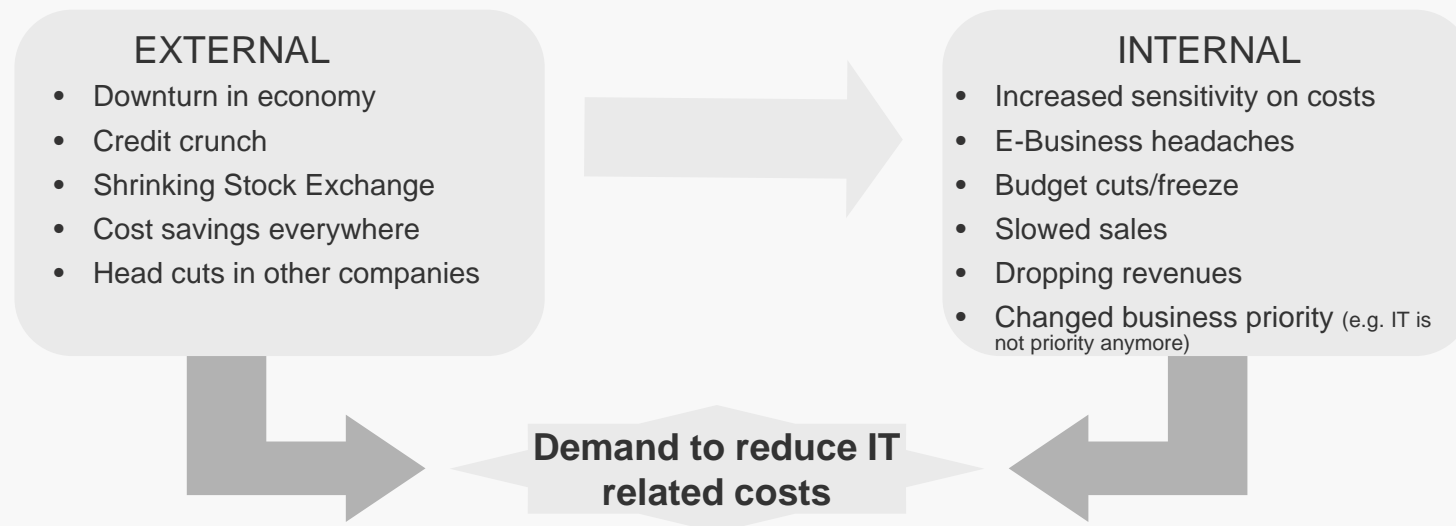
*“How shall I cope when the economy swings upward again and IT needs to be ready supporting growth on short notice?”* *“I am glad to hear that your thoughts consider such aspects even in a recession period”* the good fairy replied. *“Growth is not only dependent on the seed but also on the conditions, such as a [project-friendly environment](#), the right people in the right role and a sustainable long-term approach”*. *“Are you focusing and investing enough into these topics?”*

The good fairy left a slide deck behind which the CIO presented at the next day's management meeting...

# Increased demand to reduce costs

## Internal & external circumstances force IT organizations to act very fast

- The current economic climate forces many companies to reduce their overall cost base. IT is in many cases in a central focus.
- Today, IT organizations must cope with a cost reduction momentum that is driven internally and externally.



**november ag** applies a comprehensive approach to minimize potential negative side effects!

# Analysis of the situation

## What is the key driver behind the cost reduction objectives?

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**Costs are fair but there is an enterprise wide issue with costs**

- Revenues reduced
- Priorities changed

**Costs are too high and do not correlate with the delivered services**

- Benchmarking shows cost saving potential
- Cost development is not in line with services development

**Costs are too high**

- Business requirements and IT services not aligned
- Strategic change of business

**Cost issue is temporary**

**Systematic cost issue  
→ Efficiency**

**IT has reduced value  
→ Effectiveness**

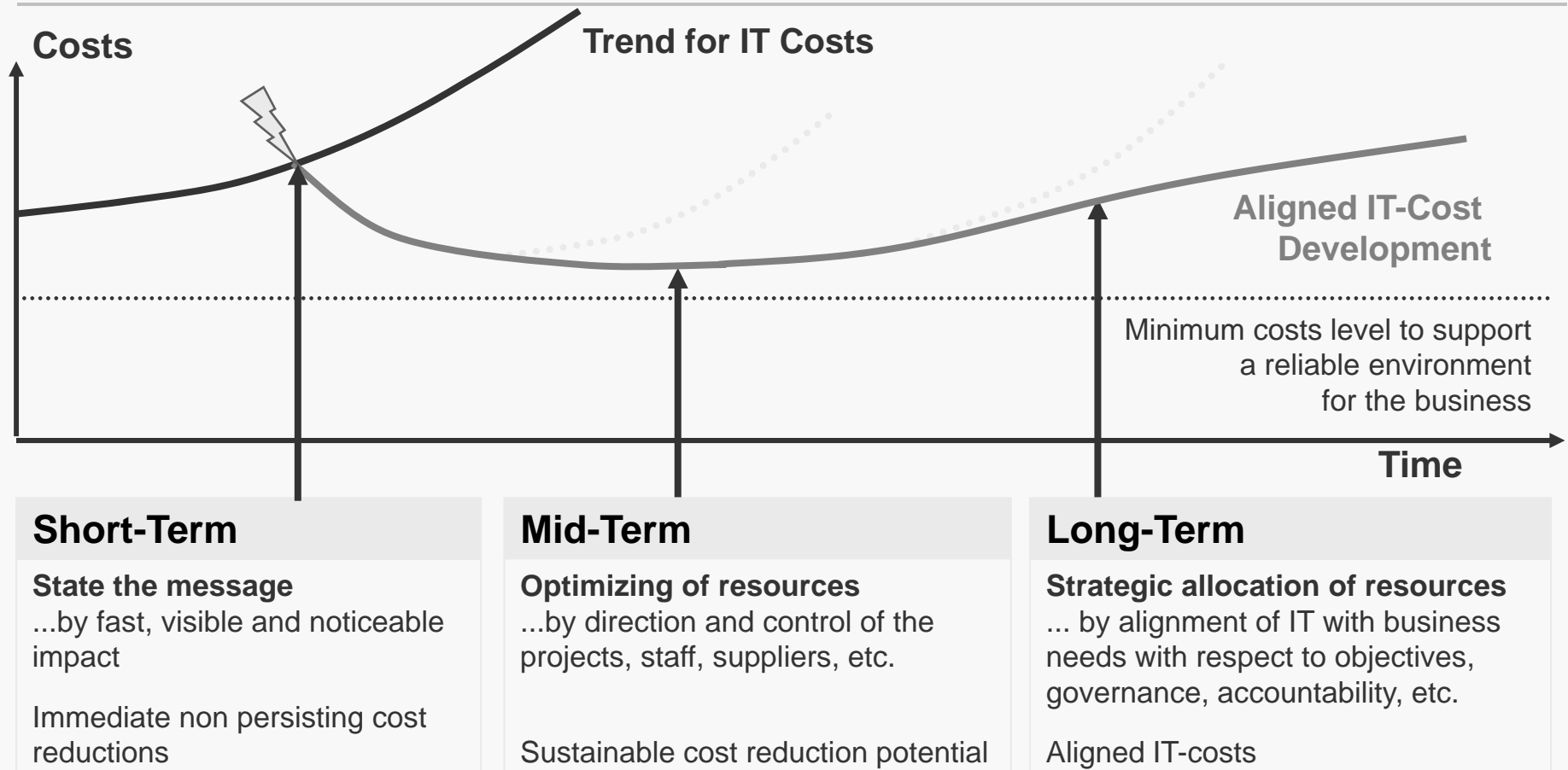
# Approaches to reduce costs

Consider the associated time frames, risks and impacts

Approach	Drivers	Characteristics	
<b>Cost Cutting</b>	IT costs must be quickly reduced Service reduction is considered too Risk management is crucial	<b>Timeframe</b>	2 – 3 Months
		<b>Risk</b>	significant
		<b>Investment</b>	None required
		<b>Impact</b>	Short time, not lasting
<b>Cost Freeze</b>	IT costs must not increase any further	<b>Timeframe</b>	2 – 3 Months
		<b>Risk</b>	moderate
		<b>Investment</b>	None required
		<b>Impact</b>	Short time, not lasting
<b>Cost Optimization</b>	IT costs are being reduced by changing the environment, processes or architectures. Significant investment is required.	<b>Timeframe</b>	6 – 24 Months
		<b>Risk</b>	low
		<b>Investment</b>	Required
		<b>Impact</b>	Focused and lasting
<b>Strategic IT Cost Management</b>	With changes in either philosophy, cost structure, governance, sourcing application portfolio or all of them, the IT costs and its development are being addressed in a fundamental way.	<b>Timeframe</b>	9 – 30 Months
		<b>Risk</b>	low
		<b>Investment</b>	Significant
		<b>Impact</b>	unsure

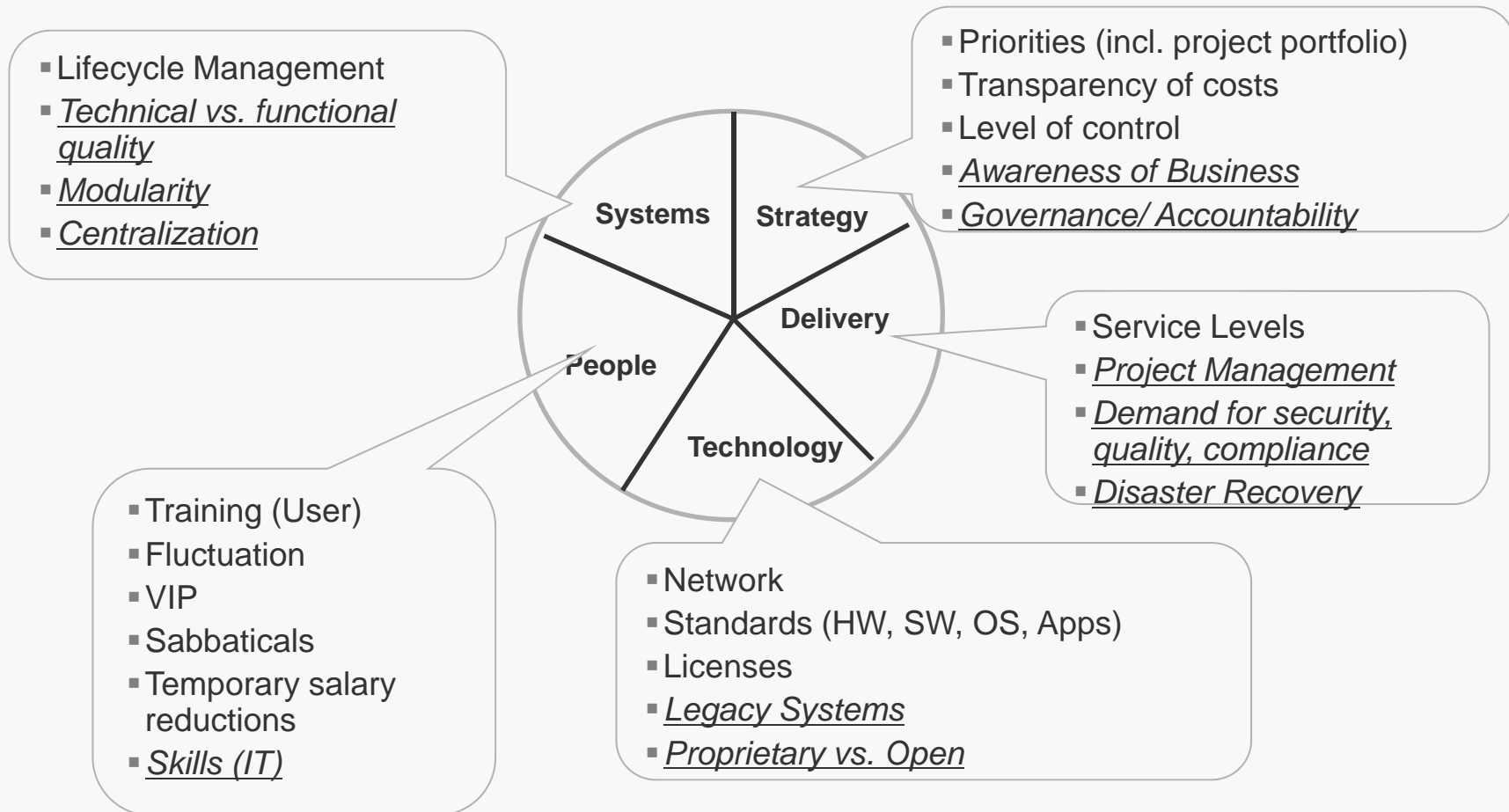
# Cost Reduction Short, Mid, Long-Term

Be aware that Cost cutting is fast but risky whilst Cost optimization is an investment on the longer term!



# Major Cost Drivers

Scour for all potentials to influence costs in the Short Term or Long-Term



# Focus Areas

To be selected with respect to time frames and risks

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## Short to Mid-Term

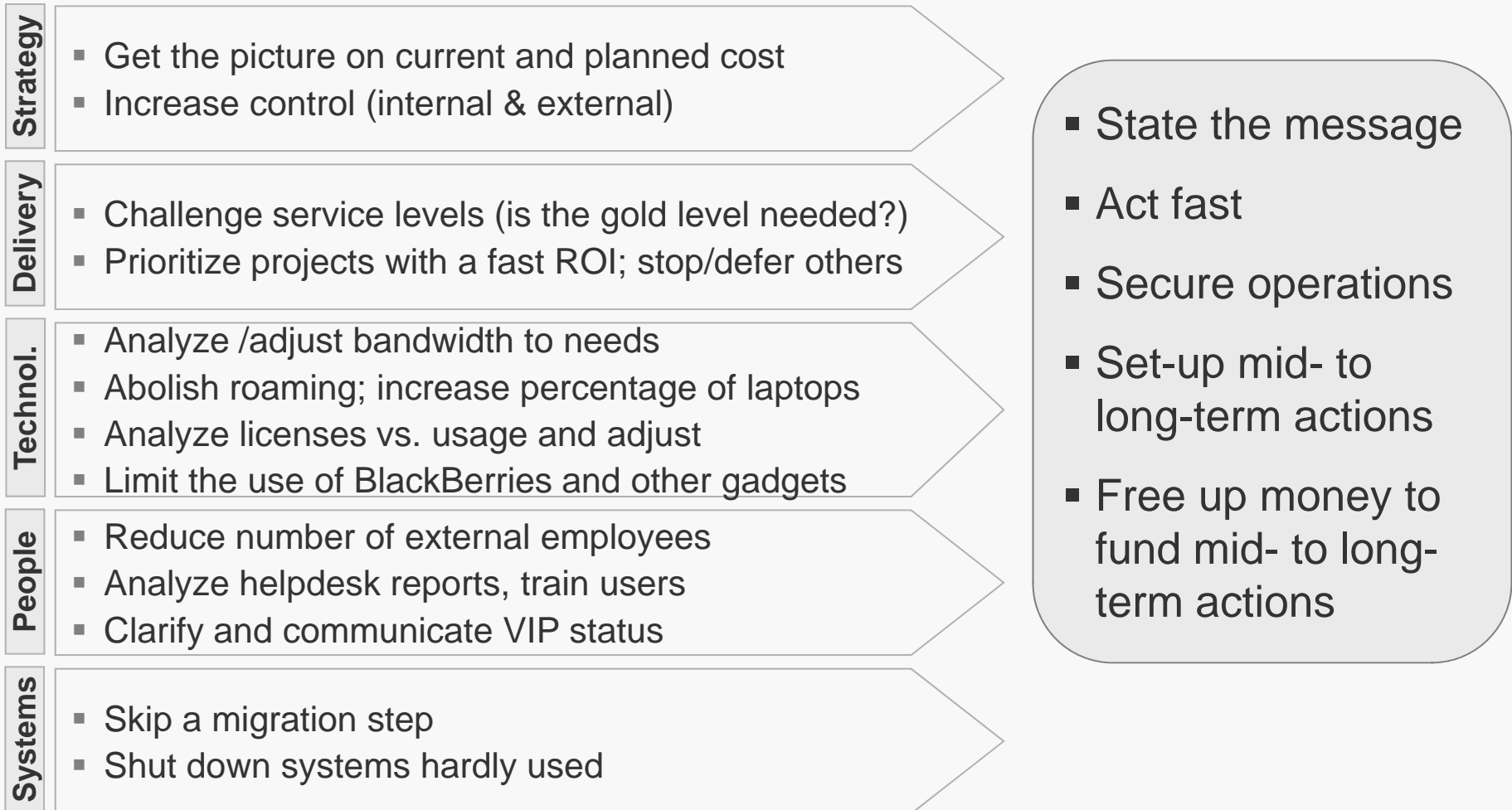
- **Decentralized Systems**
  - multiplier effect
  - divergence
  - network
- **Behavior Patterns**
  - reporting (work done, status, complaints, etc.)
  - reliability (deadlines, commitments)
  - co-ordination, communication
  - 80/20 rule
- **External Suppliers**
  - number of external staff
  - services provided
  - satisfaction

## Long-Term

- **Systems & Architecture**
  - *legacy systems*
  - *modularity*
  - *thin client architecture*
  - *standard software*
- **Culture**
  - *governance, accountability (persons vs. boards)*
  - *project management culture*
- **Sourcing**
  - *Internal / external*
  - *outsourcing / insourcing*
  - *core competencies and skills*



# Some Short to Mid-Term Actions



# Key Success Factors

- Work order by senior management
- Regular involvement of the sponsor
- Fast and lean approach with defined milestones
- Definition of acceptance criteria and
- Early clarification of

## ... objectives & targets

- Cutting, Freezing, Optimizing?
- How much shall be reduced?
- Time frames?

## ... scope

- Which parts of the IT Organization are in focus, which are not to be touched?

## ... communication

- Open discussion in (& outside) the organization?
- Who to involve?
- Who are the stakeholders (promoters and blockers)?

## ... degrees of freedom

- Is a reduction of staff an option?
- Which long-term obligation can not be changed?

**november ag has long-time experience in IT Cost Management and offers value based services for IT Cost Reduction.**

**We are happy to further explain our approach to you.**

# november ag

## **We support you in the essential things.**

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