

BOOSTING IT EFFICIENCY: The next round of IT cost cutting



Reduce your IT operating costs by up to 30%

IT cost-cutting programs. You've doubtless been there, done that. But did the costs stay down? And did efficiency really improve? After rounds of IT cost cutting, chief executives are still not satisfied with what they spend on IT compared to what they get for their money. Slashing IT project budgets often seems to fix the numbers at first. But this approach – merely meeting less business requirements – can never be sustainable.

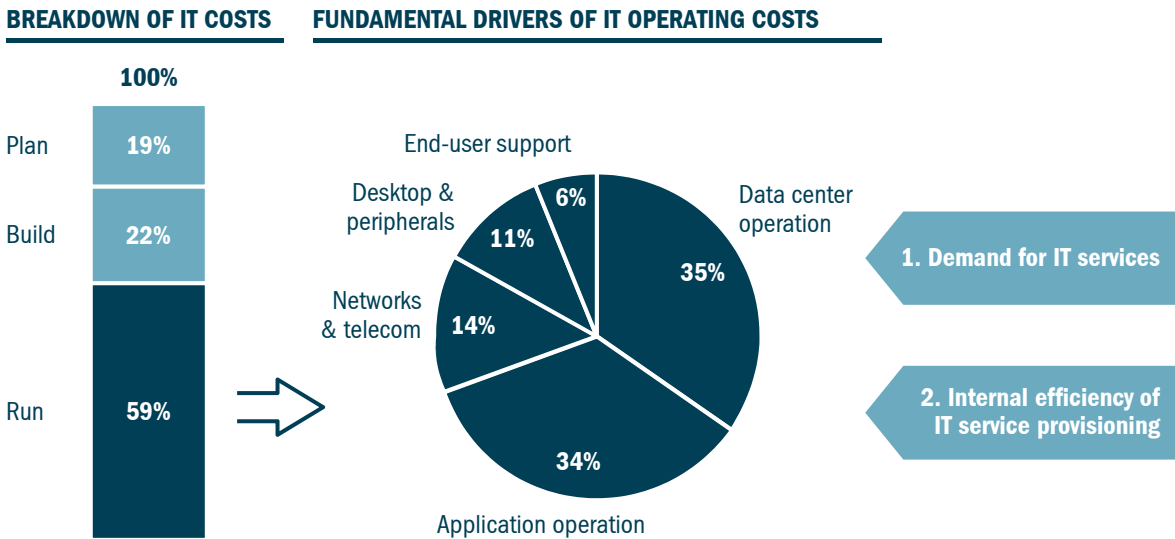
CEOs and CIOs are now putting even more pressure on IT operating costs, which are typically regarded as not adding a lot of value for the business. After all, you are just "running the current system", aren't you? All too often, however, IT operating costs seem to be carved in stone. Potential savings can be frustratingly hard to realize in practice.

Our experience shows that a focused, structured approach can reduce IT operating costs by up to 30% while maintaining the same service levels. The initial impact can be felt within just two to three months.

Savings of 30%? Where?!

Typical IT cost structures reveal that operating costs account for up to 50% – and sometimes even 70% – of total IT spending.

Figure 1: Typical breakdown of IT costs in telecommunications (sample project)



There are two fundamental drivers of IT operating costs:

- 1) **Demand for IT services** – What services/service levels does the business expect and need from IT? Can they be reduced without affecting business operations?
- 2) **Internal IT efficiency** – How does IT assure guaranteed services and service levels and how can production be optimized while still providing the same quality?

Here are three examples of levers that address demand for IT services and IT efficiency:

- > **Set standards for IT demand:** IT requirements must be consolidated/standardized ahead of implementation. Bringing several requesters together often leads to more consistent IT demand and hence to standardized support and operating structures
- > **Include IT operating costs in a revised project process:** IT demand alone fails to take downstream operating costs into account. Implementation projects focus on building functionality rather than how to run the system later. But bringing an operating cost perspective into the project process helps keep IT operating costs down
- > **Right-size hardware to increase internal efficiency:** We often find oversized software and hardware components as IT units want to make 100% sure they meet business service levels. By adding a business case perspective to hardware sizing – including the specific risk of failure – efficiency can be increased without actually reducing IT service levels

Figure 2: Description of key levers to improve IT efficiency

IT operations	Manage demand (impacts users, requires user input)			Increase efficiency (within IT)				Savings potential ¹⁾
	Standards	Revised project process	Prioritizing/SLAs	Size, centralization	Tools, automation	Sourcing changes	Contract negotiations	
End-user support								10-25%
Application operation								5-20%
Data center operation								5-20%
Networks/telecom								10-40%
Desktop/peripherals								10-25%

Cost-cutting spread: Over 20% Up to 20% Up to 15% Up to 10% Less than 10%

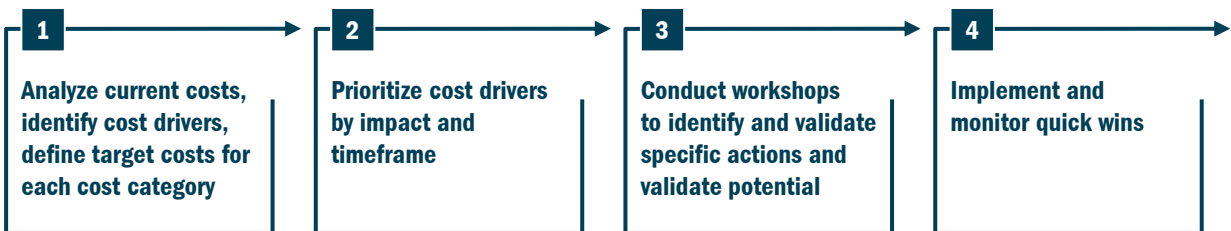
1) Based on Roland Berger Strategy Consultants' project experience

Source: Roland Berger Strategy Consultants

**Roland Berger's approach to increasing IT efficiency:
Involve customers and suppliers in your cost-cutting activities**

Roland Berger has designed and successfully implemented a systematic and sustainable way to help companies effectively reduce IT demand and maximize their operational IT efficiency while limiting the impact on IT's internal clients and on business processes.

A four-step approach can be taken to address the objective of raising IT efficiency:



This approach addresses three common pitfalls that often lead to suboptimal IT operating cost reduction programs.

Pitfall 1 – Lack of focus and unclear starting points before discussion with IT

When engaging IT, it is important to know and understand the initial points of departure. Our experience shows that ideas to cut costs do not come up as a matter of course, nor do they systematically cover all areas of IT spending.

Before talking to IT or the business, it is vital to identify the relevant cost drivers, e.g. the number of hardware elements and what they are to be used for. A rough estimate of the maximum and minimum impact, associated risks and the time needed until effects begin to show is also necessary. Cost drivers can then be prioritized in advance and the most important ones selected for workshop discussions.

Benchmarks often help companies to identify the areas with the biggest savings potential. Also, an outside perspective often makes it easier to challenge the status quo within IT units or at the interface between IT and business departments. To take one example: At a large telco, legacy IT costs did not reflect the real situation. A significant volume of additional IT expenses was paid directly by the business departments. By comparing the complete cost picture with the figures at other companies, Roland Berger quickly identified the number of workstations as a key cost driver. This discovery was made possible simply by challenging the inherited allocation of IT costs.

Pitfall 2 – "No room for change" at business departments and IT units

Reducing IT operating costs is difficult. On the one hand, IT says it cannot make cutbacks as it simply has to meet business requirements and SLAs. On the other hand, business departments do not know what drives costs at IT and are rarely willing to accept any loss in business process quality. This leads to a pat situation where there appears to be no room for change.

It is therefore critical to bring the IT customers (the business side) and the IT suppliers (the IT operating unit/IT service provider) together. This can best be done in focused workshops. Together, the two sides must discuss and review existing ideas and formulate new ones. The main success factor is to create a common understanding of what factors drive IT operating costs, thereby bridging the information gap between demand and implementation. Workshop participants should conduct an initial analysis of the potential arising from each action. Given the challenging nature of this environment, strong moderation skills are needed to make these workshops a success.

At one international call center operator, our interviews showed that an entire data backup facility was useless. If disaster had struck, the fallback system would not have saved the business from a long-lasting system outage. A substandard system architecture and inappropriate interface design resulted in restore times for backed up data that were far too long. Though several key players were aware of this situation, the company incurred operating costs of around EUR 0.5 million for this system every year. Since most of the team had been involved in building the system, nobody wanted either to shoulder responsibility or blame their colleagues for the wrong decision. As a neutral outsider, we could quickly address the issue without blaming anybody.

Pitfall 3 – A "hands-off" approach to implementation

Once a set of actions to reduce IT operating costs has been agreed, momentum is often lost as IT is left alone to handle implementation.

We suggest that clients set up controlling systems that involve clear allocation of responsibility for each action, close monitoring of the progress of implementation, and clear decision rules for when an action is completed or has to be aborted. The latter is an important issue as, once initial enthusiasm has worn thin, specific concerns will be raised that could necessitate another, closer look at the actions concerned.

Managers must make sure that this task is assigned to someone with the necessary grit. The success of the program depends heavily on the persistence of the program manager.

Brief case study: Telecommunications

By adopting this approach at a telecommunications company, we identified actions that would reduce IT operating costs by 20% in three months. Discussions with business departments and IT suppliers helped us identify seven clusters of cost levers. The timeframe for the realization of actions varied from two to twelve months per cluster.

Figure 3: Case study: IT costs reduced by activating various levers (examples of cost levers)

Cluster	Cost levers	Average time to realization	Effects (% of total savings)
REDUCE NO. OF WORKSTATIONS	<ul style="list-style-type: none"> > Number of workstations > Type of software/no. of different systems installed on workstations 	2-4 months	27%
RETIRE APPLICATIONS	<ul style="list-style-type: none"> > No. of applications with redundant or unnecessary functions 	12 months	23%
REDUCE HARDWARE CAPACITY	<ul style="list-style-type: none"> > Hardware use in daily operations > Required (extra) capacity for peak periods 	2 months	16%
MIGRATE PLATFORM	<ul style="list-style-type: none"> > Cost of operating environment (open systems, mainframe, mainframe NALC??) 	6 months	12%
INTRODUCE LICENSE MANAGEMENT	<ul style="list-style-type: none"> > License price > Number of licenses required (CPU licenses, number of users) > License type (group licenses, floating/named-user licenses) 	6 months	11%
CUT APPLICATION OPERATION/NETWORK TRANSPORTATION COSTS	<ul style="list-style-type: none"> > Number of faults, changes and interfaces > Maturity of application > Service times > Hardware performance 	1 month	9%
REDUCE BACKUP & STORAGE	<ul style="list-style-type: none"> > Storage volume > Backup volume and type > Frequency and duration of backup > Type of backup 	2 months	1%

Our offer to you

Based on our comprehensive experience with IT cost reduction and prevention, Roland Berger Strategy Consultants can prioritize efforts, identify valuable actions, realize quick wins (short-term cost reductions) and support implementation of a comprehensive set of cost-cutting actions reliably and swiftly.

We adopt a neutral, objective stance, bringing customers and suppliers together in one team to get the most out of cost-cutting opportunities. In particular, we can help you with the following issues:

Prioritizing efforts

- > Conducting a quantitative analysis of the current IT operating cost base
- > Harnessing market knowledge to explore the specific situation in light of typical issues
- > Avoiding too much detail thanks to experts who identify typical areas for improvement

Identifying actions

- > Providing benchmark data and best practice approaches
- > Facilitating cross-functional workshops with suppliers and customers to jointly identify the maximum effects
- > Identifying "sacred cows" and performing objective "fitness tests" of your organization – which is only possible from an outside-in perspective

Establishing a controlling system

- > Formulating business case logic and applying it to concrete actions
- > Setting up a controlling system to ensure that actions are fully realized

In many hands-on projects, we have found this to be a powerful approach that can enable you to realize short-term effects in IT operations. Savings of up to 30% on operating costs can be realized within 12 months after project launch.

Would you like to know more?

For further information, please contact Fred Schneiderei, Dr. Andreas Dietze or Carsten Rossbach (0211-4389-2164)

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