



# Use IT Costs to Help Manage the Road to Recovery



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# Agenda

- Samples of what we measure
- Keys to IT Costs
- Causes of High IT costs
- How to better manage IT costs
- How you can help CIOs

# Some Key Measures

- IT Spend as a % of Revenue
  - Want to trend downward over time
  - Average = 3.4%
- IT Spend as a % of Operating Expense
  - Ideally, want increase over time
  - Average = 4.4%
- IT Spend to Run/Grow/Transform the business
  - Ideally, more to grow and transform
  - Average = 66% (Run), 19% (Grow), 15% (Transform)

# ALL IT Costs – Two Principles

- They are an investment!!! – not expense
  - THIS MEANS...Require a BUSINESS return!
    - Business is...Better, Cheaper, Faster, Less Risk!
- They also create an asset!
  - THIS MEANS...They have useful lives
    - They need to be used, enhanced and maintained!

# Primary Causes of High IT Costs

- *Bad practices!*
- *Bad execution!*

# Examples of Good Practices

- Managing PCs and Laptops
  - Locked and Well Managed is Best Practice
    - Means Users cannot install software or change critical settings
      - Also tools, processes, and policies in place to manage this
- If adopted, savings of 40% over life of asset

# Examples of Good Practices

- Using enterprise architecture
  - Means planning in advance how your systems and data work together (and the changes made to them)
    - Reduce redundancy and complexity
- If done well, provides more money to grow and transform the business
  - Remember “Run, Grow, Transform”
  - Reduces “Run” by 20% and increases “Transform” by 28%

# Examples of Good Practices

- Reduce the number of systems (“assets”)
  - For every \$1 spent to make a system “go live”
    - It costs:
      - 11 cents/year to maintain
      - 14 cents/year to run
      - 17 cents/year to enhance
  - THIS MEANS:
    - Need at least 42 cents of annual business value per system
    - Over a 15 year life, the cost to “go live” ONLY 8% of total
      - OR 92% of cost occurs after installation

# Examples of Good Practices

- Reuse “Stuff”
  - **Data** – one version of customer or product
  - **Process** – one accounts payable module, one compensation module, one credit scoring module, etc.
  - **Technology Reuse**
    - Data center consolidation
    - Server consolidation and virtualization
- Result: **Higher revenue/margin growth vs. peers**

# Growth is higher for firms that reuse more

Percentages are average revenue growth rates 2007/2008

Total Reuse <sup>3</sup>	High	+4.3% (43)	+6.0% <sup>2</sup> (51)
	Low	-4.1% (59)	-4.3% (64)
		Low	High

IT Spend as a Percent of Revenue<sup>1</sup>

## Second Cause = Bad Execution

- **Good Execution** means:
  - Implementing all those “Good Practices” WELL plus
- Three other examples.....

# Examples of Good Execution

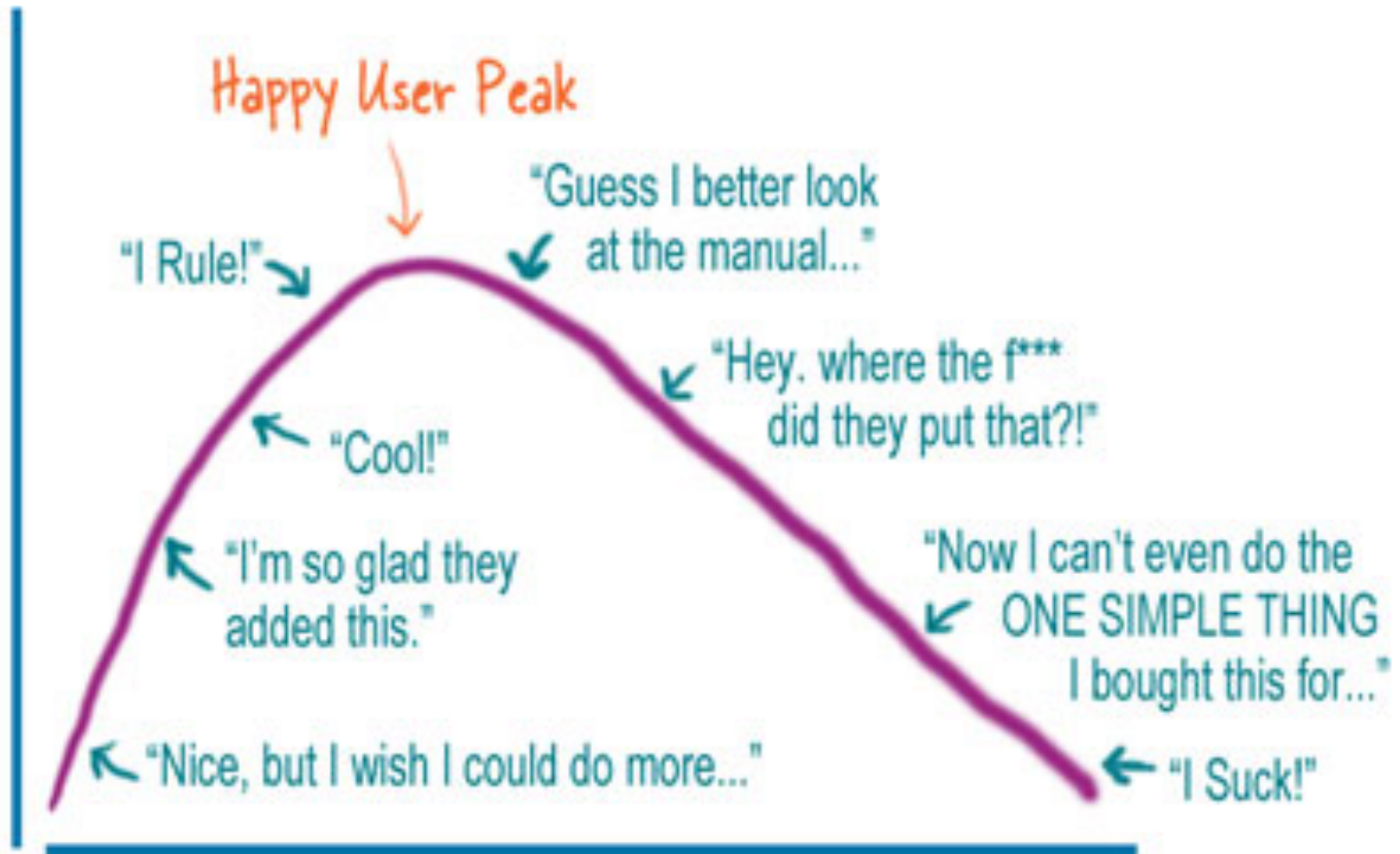
- Formal Project Management
  - Full-time and accountable project managers
  - Formal Project Offices
- If adopted:
  - 50% reduction cost overruns/schedule slippage
  - Improve ratio planned to actual benefits (35 to 82%)
  - 5-20% improvement IT productivity

# Examples of Good Execution

- Minimize complexity/customization
  - All those “nice to have” system changes
- Often called “FEATURITIS”

# The Featuritis Curve

**User Happiness**



**Number of Features**

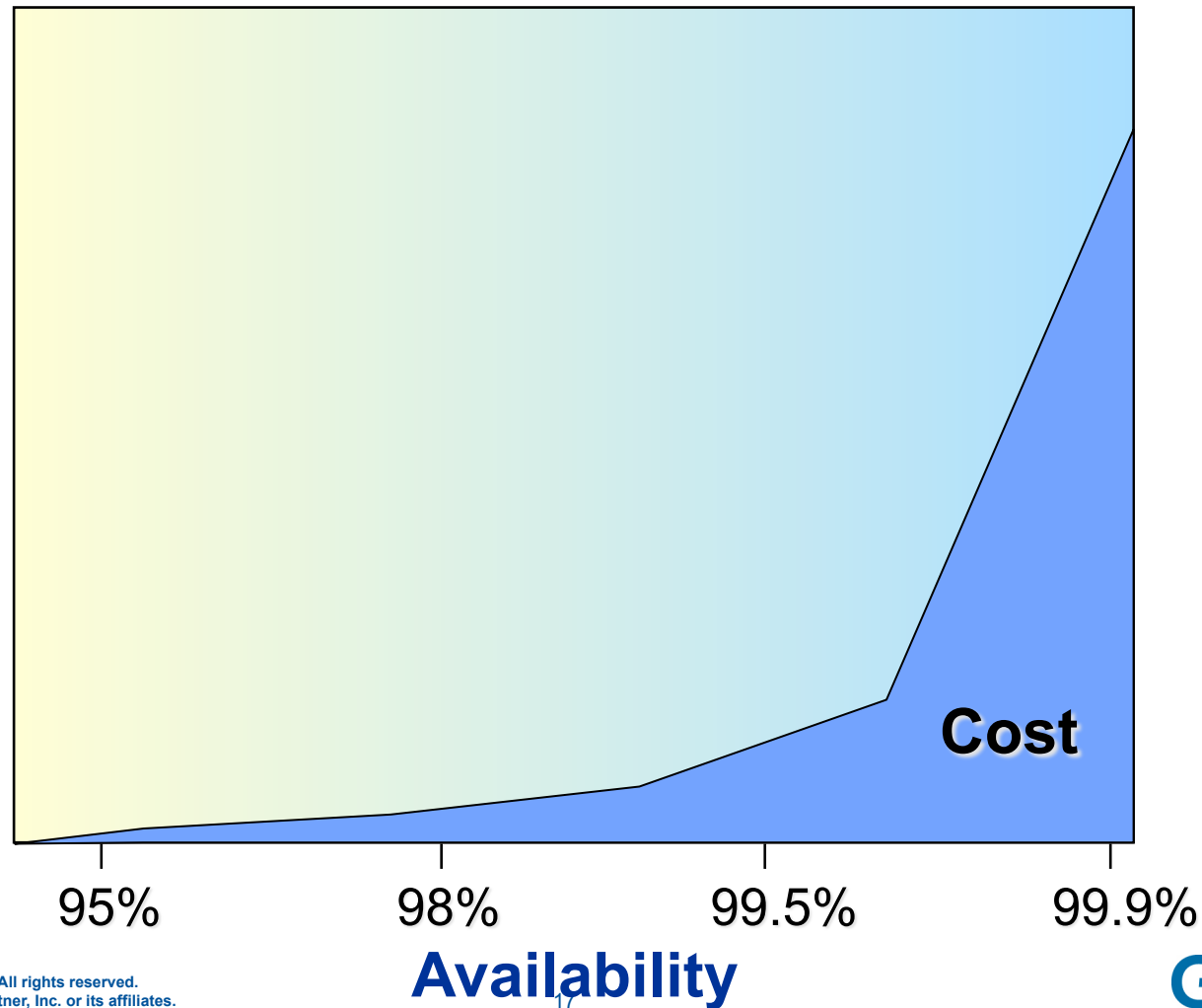
# Implications of Complexity/Customize

- Large Changes with 4 times the complexity
  - Take 2-4 times as long to complete
  - Cost 2-4 times as much
  - Incur twice the risk of not working
- Remember the 8% - cost to go live vs total cost
  - **Can get as low as 2%!**
- SAP implementation experiences
  - **Implementation/software costs – 1.5 to 23.59/1!!**

# Examples of Good Execution

- Formal Service Level Agreements
  - Need data immediately or not?
    - Or, can it be archived?
  - Need all systems available 24/7?
    - Or can some have less availability

# System Availability Cost Curve



# Road to Recovery - How To Help Your CIOs?

- Ask them two simple questions
  - What best practices are we not following?
    - How can I help you get the organization to follow them?
  - How can I help you improve our IT execution, especially on our key projects?
- Then – be a trusted ally
  - Corporate meetings or IT Steering committees

# Questions?