

BOOSTING IT EFFICIENCY: Next round of IT cost cutting



Reduce your IT operation costs by up to 30%

IT cost cutting programs – done that. But really successfully, i.e. sustainable while improving efficiency? After rounds of IT cost cutting chief executives are still not satisfied with their level of IT spending compared to the output they are getting. Quite often reducing IT project budgets seemed to fix the numbers at first. This obviously could not be sustainable as simply less business requirements were implemented.

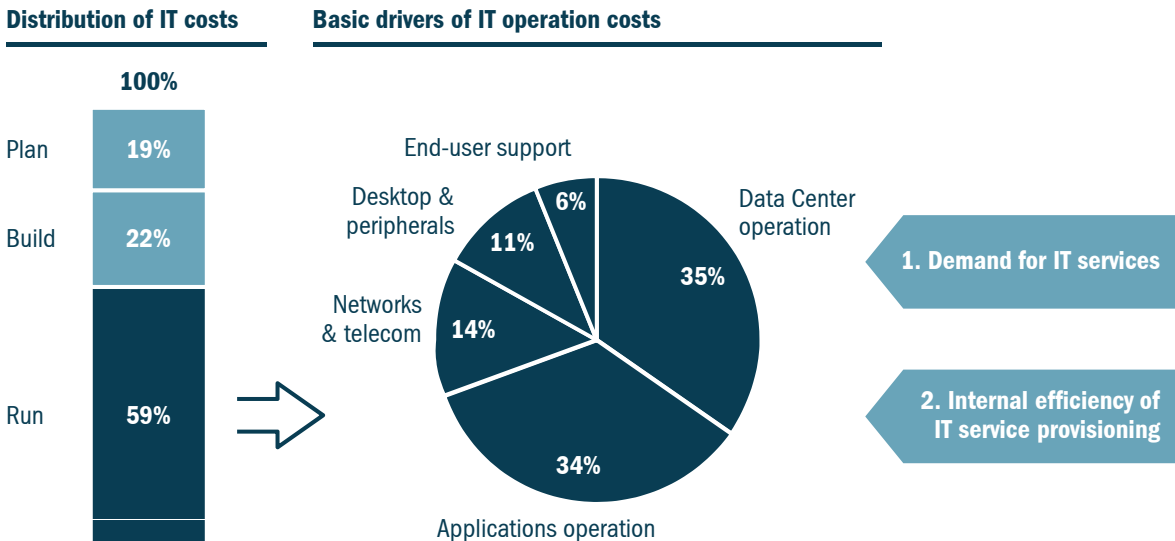
CEOs and CIOs now put more pressure on IT operation costs, which are typically regarded as not adding a lot of value for the business: It's just "running the current system". But too often costs of IT operation seem to be carved in stone and saving potentials are very hard to realize.

Our experience shows: With a targeted, structured approach a reduction of up to 30% of IT operation costs while maintaining the same service levels can be achieved – first impact already after 2-3 months.

30% savings? How to find them?

Looking at a typical cost structure within IT shows that operations costs account for up to 50%, even 70% of total IT spending.

Figure 1: Typical split of IT cost structure in telecommunications (project example)



There are two underlying drivers of IT operation costs:

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

Examples for levers to address demand for IT services and IT efficiency are:

- > **Setting Standards for IT demand:** IT requirements need to be consolidated and standardized before their implementation. Bringing several requestors together will often lead to more consistent IT demand, which will lead to standardized support and operation structures within IT.
- > **Include IT operations costs in a revised project process:** IT demand does not take subsequent IT operation costs into account. Implementation projects focus on building functionality rather than how to run the system later. By bringing in an IT operation cost perspective in the project process, IT operations costs will stay on a lower level.
- > **Right-sizing of Hardware to increase internal efficiency:** We often find oversized software and hardware components as the IT department wants to make 100% sure to fulfil the service levels of business. 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 main improvement levers in IT area

IT operations	Demand management (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 reduction spread: Over 20% Up to 20% Up to 15% Up to 10% Less than 10%

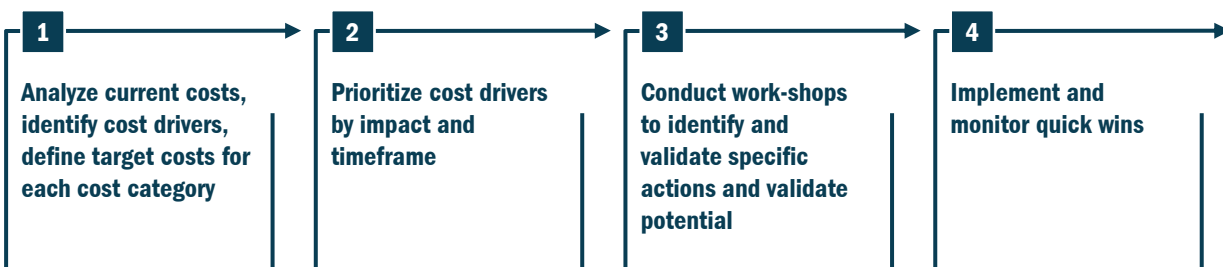
1) Based on project experience of Roland Berger Strategy Consultants

Source: Roland Berger Strategy Consultants

**The Roland Berger approach to increasing IT efficiency:
Integrate customers and suppliers into your efforts**

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

To address the objective of reducing functionality and services, a four step approach can be taken:



This approach addresses three common pitfalls for an IT operation cost reduction program.

Pitfall 1 – No focus and unclear starting points before discussing with IT

When starting discussion with IT, it is important to already know and understand first starting points. Our experience shows: Ideas to reduce costs will not come up as a matter of course or will not systematically cover all areas of IT spending.

Before talking to IT or the business the relevant cost drivers have to be identified, e.g. number of hardware elements and their utilization, and roughly evaluated (maximum and minimum impact, associated risks, time necessary until effects will show). This allows to prioritize the cost drivers in advance and select a relevant set for the workshop discussions.

Often an benchmark can help to identify areas with biggest potential. With an external perspective it often is easier to challenge the status quo within IT or at the border of IT and business departments. To make one example: At a large telco incumbent IT costs did not reflect the real situation: quite a lot of additional IT expenses where directly paid by the business department. By taking the complete cost picture and comparing the figures with those of other companies, we quickly identified the number of workstations as a promising cost driver. This was possible "just" by challenging the taken for granted allocation of IT costs.

Pitfall 2 – Business departments, IT department and suppliers: Nothing can be changed

Reducing IT operation costs is difficult: IT on one side says they can not change anything as they "just" have to fulfill business requirements and SLAs. The business on the other side does not know what drives costs within IT and most of the times is not willing to accept a loss in business process quality. This leads to a "nothing can be changed"-situation.

It is critical to bring together IT customers (the business side) and suppliers (IT operations department/ IT service provider). This can best be done in specifically conducted workshops. Jointly they discuss and review already existing ideas or find new ideas. Main success factor is to create a common understanding of key cost drivers for IT operation costs. Bridging the information gap between requirements and their implementation. The workshop participants conduct a first potential analysis for each action. Taking place in a challenging environment, strong moderation skills are needed to make the workshop series a success.

At an international call center operator our interviews showed that a whole data backup facility was useless: In case of a loss of the original data the fallback would not save the business from a long-lasting system failure. Bad system architecture and wrong interface design resulted in far too long restore times of the backup data. Though this situation was known by several key players, each year the company spent EUR ~0.5m of operation costs for the unit. Nobody wanted to be responsible as most of the persons were actually involved in the construction of the system or did not want to blame their colleagues for the wrong decision. As a neutral outsider we could quickly address the issue without blaming anybody.

Pitfall 3 – Implementation process left alone

Having agreed on a set of actions to reduce IT operation costs, momentum is often lost as IT is left alone with their implementation.

We suggest to set-up a controlling system with clear allocation of responsibility for each measure, close monitoring of implementation progress and clear decision rules for when an action is completed or has to be stopped. The later is important as – of course – after the first enthusiasm will be gone, specific concerns will be raised, which could necessitate another evaluation round for affected measures.

Managers have to make sure that this task is committed to someone with the necessary grit. The success of the program strongly depends on the persistence of the program management.

Short case study: Telecommunication

Following this approach at a telecommunication company we identified measures to reduce IT operation costs by 20% in 3 months. In discussion with business departments and IT suppliers seven clusters for cost levers were identified. Timeframe for realization of measures varies from 2 to 12 months.

Figure 3: Case study: IT costs were reduced using various levers (examples of cost levers)

Cluster	Cost levers	Average time needed for realization	Effects in % of total savings
WORKSTATIONS	<ul style="list-style-type: none"> > Number of workstations > Type of software and number of different systems installed on workstations 	2-4 months	27%
RETIRING APPLICATIONS	<ul style="list-style-type: none"> > No. of applications with redundant or unnecessary functions 	12 months	23%
HARDWARE CAPACITY REDUCTION	<ul style="list-style-type: none"> > Hardware utilization in daily operations > Required (extra) capacity for utilization peaks 	2 months	16%
PLATFORM MIGRATION	<ul style="list-style-type: none"> > Cost of operating environment (open systems, mainframe, mainframe NALC) 	6 months	12%
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%
APPLICATION OPERATIONS AND 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%
BACKUP & STORAGE REDUCTION	<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 in IT cost reduction and prevention, Roland Berger Strategy Consultants can prioritize efforts, identify valuable measure, realize short-term cost reductions of quick wins and support implementation of a comprehensive set of cost reduction measures reliably and quickly.

We will take on the independent position when it comes to binding together customers and suppliers in one team to get out the max of cost reduction opportunities. We can help you especially with the following issues:

Prioritization of efforts

- > Conducting quantitative analysis of current IT operations cost base
- > Using market knowledge-driven approaches to mirror the specific situation with typical issues
- > Avoid getting lost in detail by having experts on board, showing typical areas for improvement

Identification of measures

- > 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 a fitness test of your own organization will only be possible with an outside-in perspective

Set-up a controlling system

- > Setting up business cases logic and applying it to the concrete measures
- > Putting in place a controlling system to make sure, that implementation of measures will be realized

We have found this to be a powerful approach that puts you in place of being able realizing short term effects in IT operations. Effects of up to 30% of realization cost reductions can be realized within 12 month after kick-off of this project.

Further questions?

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