

IT Performance Optimization – A Framework For Constraining Budgets Without Sacrificing Business Transformation

CIOs and CFOs remain under extreme economic pressure to further reduce spend while maintaining high service and quality. We offer fresh thinking and guidance on how to work through the performance and cost optimization process.

By Vineet Kapur and Akash Jain

With the global economy gradually righting itself amid continuing uncertainty, businesses around the world are adjusting to new economic realities. Nearly all of them have been forced to trim their bottom lines and balance sheets through aggressive cost and capital reduction measures, sometimes to the detriment of strategic business transformational efforts.

Achieving such significant performance optimization does require dedicated resources from the client.

Doing more with less is nothing new for CIOs. However, two things have made cost-cutting especially difficult this time around. For many companies, IT expenditures have for the last few years already been pared down extensively, making the additional cuts seem even more painful. Additionally, CIOs continue to be responsible for delivering new business capabilities despite facing even greater resource constraints for funding them.

Many companies will find it beneficial to turn to service providers that specialize in performance optimization. But the key imperatives in these economic times are speed, results and an under-

standing that strategic initiatives should not be sacrificed, no matter how deep the cuts must be.

We have developed a framework and related methodology to help IT leaders meet cost-cutting objectives while preserving ongoing business transformation initiatives -- in other words, focusing on total performance relative to cost, rather than cost alone. The framework is based on our experience in working with companies that are facing these challenges. Through a repeatable, six-step methodology (see Figure 1), our framework enables companies under duress to do the following:

- Assess their IT budgets and pinpoint optimization opportunities.
- Collaborate with a strategic partner on new ideas to drive effective performance management.
- Identify short- and long-term savings from IT resources and optimizations.
- Syndicate an implementation roadmap to transform performance improvement opportunities into reality.

Our framework was formulated in response to



Six-Step Methodology

1. Identify Engagement Scope

- Conduct executive-level discussions to understand priorities.
- Ensure comprehensive scope.
- Identify key stakeholders.

2. Perform Data Collection

- Conduct interviews and gather financial/architectural information.
- Circulate questionnaires to different subgroups, such as application, infrastructure and support desk.

3. Identify Optimization Opportunities

- Based on responses, list all possible opportunities within areas in scope.
- Categorize opportunities based on financial and organizational impact.

4. Quantify Benefits Through Identified Opportunities

- Scrutinize “optimization gaps” by benchmarking IT performance.
- Validate opportunities with stakeholders and executive committee.
- Based on the financial data, quantify the benefits from the opportunities (for example, high, medium or low impact).

5. Explore Alternative Scenarios

- Based on client feedback, refine analysis of short-listed opportunities.
- Perform scenario analysis to determine the best possible sequence of implementation (for example, high risk vs. biggest bang for the buck).

6. Create Implementation Roadmap

- Syndicate recommended sequence and the roadmap for implementation (from immediate opportunities and low-hanging fruit, to long-term savings accomplished by enabling a strategic agenda and transformation).

client requirements. We were engaged by a global, multi-billion dollar Fortune 100 diversified manufacturer that was facing a very sharp decline in its top-line revenue. The new CIO was charged with reducing the IT spend by more than 7% annually by the CFO and the board. Historically, the company's annual IT expenditures were several hundreds of millions of dollars. In the current year alone, the CIO was asked to reduce IT spend by a very significant percentage.

At the same time, the company's strategic plan called for two-thirds of its new business to come from areas of the world into which currently just one-third of its supply chain extended. These

geographies included China, India, Asia Pacific, and Eastern Europe and the Middle East. The CIO was expected to enable this growth not only without additional budget, but also while reducing costs over the next two years. His challenge was to generate savings out of the current IT operations and then to continue funding all new growth in the new geographies without any additional allocation.

He was also tasked with the longer term challenge of becoming best-in-class while cutting down IT spend to less than 2% of revenues within five years.

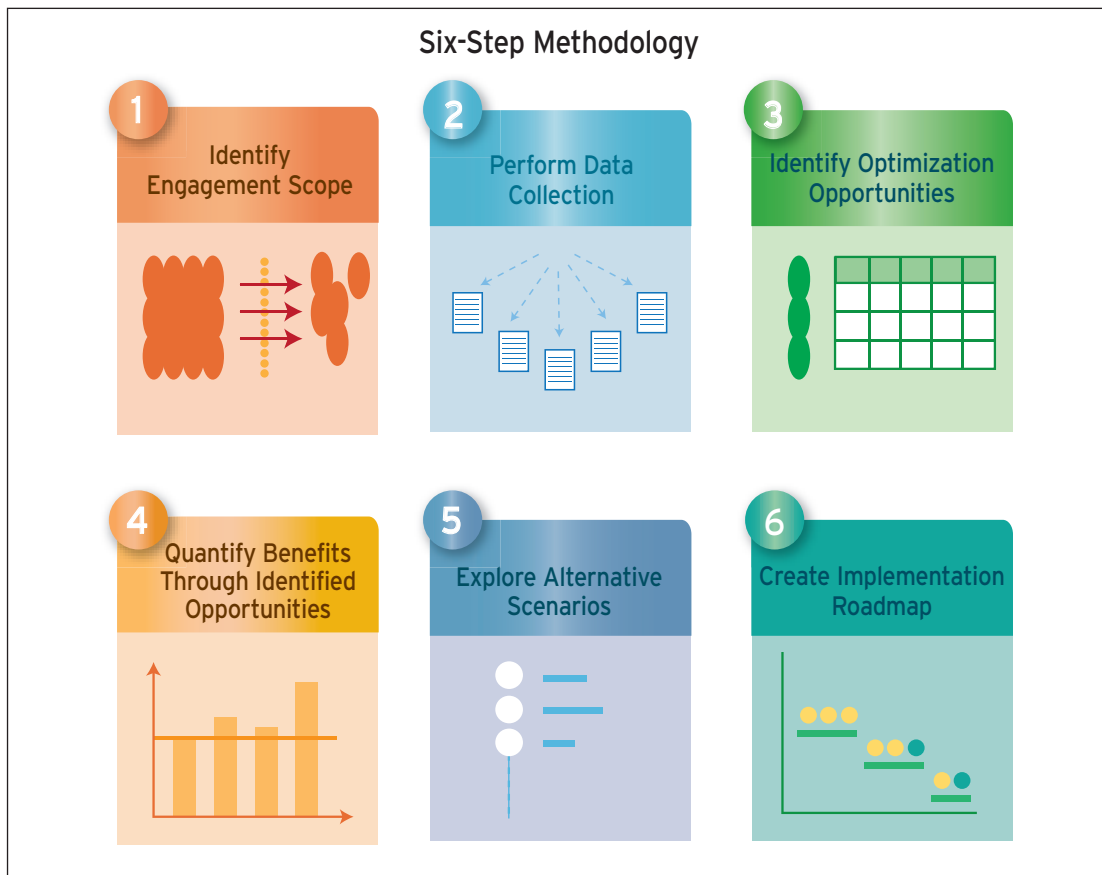


Figure 1

Using our framework over the course of four months, the client was able to identify tens of millions in savings in the first year, most of it derived from optimization of their support and maintenance activities.

The Methodology Unfolds

In the first two phases of the methodology, the main objective for this client was to assess IT budget and spend, and pinpoint optimization opportunities. It was crucial that the client held nothing sacred -- to do so would limit the scope of analysis and, in turn, the company's opportunities for performance optimization, thereby artificially constraining potential savings. Limiting the scope without proper analysis would also mean not viewing every line item in the budget objectively.

Aside from one or two areas deemed "strategic," the client did indeed consider all optimization opportunities, including infrastructure, maintenance and support, most applications and even certain business process operations.

With this particular client, the data collection phase required two courses of action. The organization supplied financial data by application, project and functional area, augmented by our internal centers of excellence to supply optimal performance data for given functional areas. Secondly, templates and questionnaires were circulated to key stakeholders who could supply ballpark estimates.

Using this data -- plus progress reviews and interviews with the key stakeholders -- it's important to create parameter-driven financial models that mirror the client's budgetary constructs. Furthermore, the financial models enable a view where applications-related expenditures can be organized by technology towers, such as Java/J2EE, Lotus Notes, mainframe applications, Powerbuilder applications, SharePoint, Visual Basic, EAI and "other."

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Financial modeling views also enable identification of consolidation opportunities by tower, with vendor consolidation savings monetized in dollars. Similar financial views can be prepared for infrastructure and other areas.

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Opportunities for IT performance enhancement and cost savings are scrutinized for “optimization gaps” by benchmarking the company’s performance to as great a level of detail as possible by technology tower, IT/business processes and personnel. A key step in this process

is obtaining or constructing relevant benchmarks that intersect for peer sets by competitors/industries, geographies, size of company, etc. Various sources are available for relevant yardsticks as public and purchased sources, the client’s organization itself and -- importantly -- our broad/deep experience across various industries and technologies.

Benchmarking IT costs and performance is not simple -- executives must dig much deeper than just their IT budgets and understand all components of their businesses that could also impact IT costs. A structured taxonomy with defined metrics and data elements is required to accurately gather the internal data needed to effectively benchmark performance. That said, this step is nonetheless crucial, and the largest optimization gaps will undoubtedly provide an agenda for scrutiny and analysis with client stakeholders and, ultimately, the identification of specific performance optimization opportunities.

It’s important that stakeholders are given the opportunity to validate these financial models and incorporate their feedback. Validating and syndicating the model typically requires several progress reviews. After this iterative review, the parameters and the financial model are frozen, with everyone agreeing to where they should be set for the first, second and third years.

Once validated, it’s important to sequence the implementation of all the opportunities into logically phased scenarios, with outcomes available in both P&L and balance sheet format. This enables the client to see short-term results juxtaposed against long-term savings opportunities. In the end, an implementation plan is laid out in the form of a detailed transformation roadmap for the IT organization, along with an

executive summary that can be presented to executive management and the CIO.

Collaboration is Key

Throughout this process, it’s important to maintain a high degree of objectivity. During the initial stages, clients are engaged via interviews, status updates and progress reviews, with the objective being to elicit as much information as possible from their organization. Thereafter, during the latter stages, these same forums are used to form and validate hypotheses, make corrections and arrive at various scenarios. While developing the detailed roadmap, stakeholders are constantly asked for feedback, so that the roadmap is a comprehensive and implementable workplan, including specific deliverables, responsibilities, timelines and measurable potential savings targets.

Achieving such significant optimization does require dedicated resources from the client. For instance, at this particular client, a number of stakeholders were focused 100% on the initiative, including an IT finance professional and a liaison who helped facilitate communications with individual stakeholders. There were additional people involved, who focused between 20% to 50% of their time on the program, including the CIO and his direct reports. Other executives kept involved throughout the exercise by attending and endorsing key progress reviews.

In the end, the overall effort can be a very worthwhile investment because -- when the framework is followed -- the roadmap is fully syndicated and accepted by everybody involved. It’s really money in the bank: The CIO can take it to the CFO and the board and even use it for his quarterly estimates because it details savings that can be achieved by towers and the stakeholders involved. More importantly, it’s already been embraced by his team.

Key Principles Enabling Success

Throughout the process, several important principles can ultimately lead to significant savings for the client.

- **Disengage strategic IT resources from maintenance obligations.** On any CIO’s team, the best assets are the most experienced, skilled and reliable people. However, these are the

very people who tend to be consumed with the day-in, day-out vortex of maintenance, enhancements and break/fixes within the firm's mission-critical IT landscape. They have no time to work on strategic initiatives -- and each time that they do seem to break free from these demands to focus on a strategic initiative, they soon get sucked back into the vortex to address the next crisis. So, CIOs need to dedicate these people to transformation projects rather than letting them be consumed by maintaining the IT landscape when such crises occur.

- **Consolidate and optimize maintenance efforts with disparate vendors.** It might make sense in some cases to have multiple vendors, but if you have too many of them, it's inefficient as well.
- **Conduct a rationalization analysis of the IT architecture.** In the case of the client mentioned above, it acquires many companies in the regular course of its business, and the integration of these companies has led to a plethora of technologies, both in the infrastructure space and the application space. An IT architecture rationalization and migration to a standard set of technologies is essential to keep the costs in check going forward. It is also important to halt the proliferation of

technologies by implementing processes, compliance and toll gates as new infrastructure or applications are deployed. In some large global enterprises, it's not unusual to find thousands of applications, only about 20% of which are critical to the functioning of the organization. By employing a framework of rationalization principles (see Figure 2), it's possible to sequence the scenarios to develop an IT performance optimization roadmap.

- **Reduce maintenance of excess applications.** This particular client was running multiple instances of SAP as the result of numerous acquisitions. Even with SAP as the enterprise application of choice, a number of small additional applications were deployed to do specialized tasks that could already be accomplished within SAP. By enforcing the 80/20 rule, companies can sharply reduce the maintenance of excess applications.
- **Analyze global infrastructure assets.** This is a very important functional area, as it often consumes 50% to 75% of the entire IT budget. Infrastructure consultants and enterprise architects can use our Infrastructure Portfolio Analysis (ISPA) methodology to perform a

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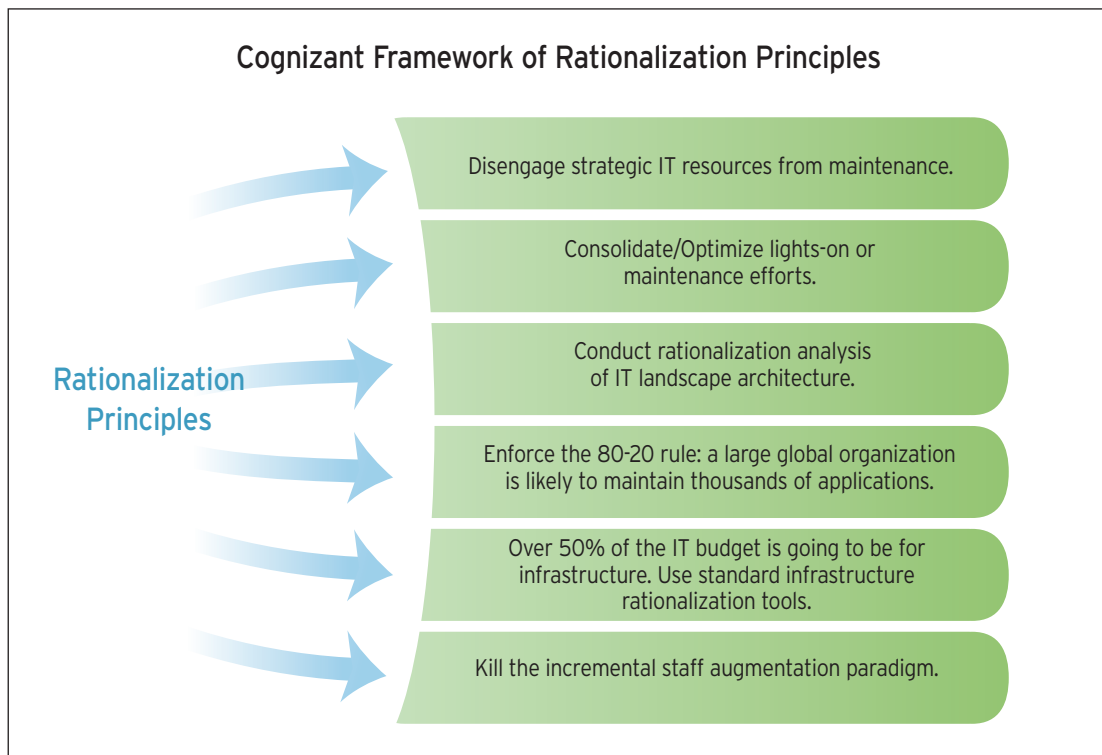


Figure 2

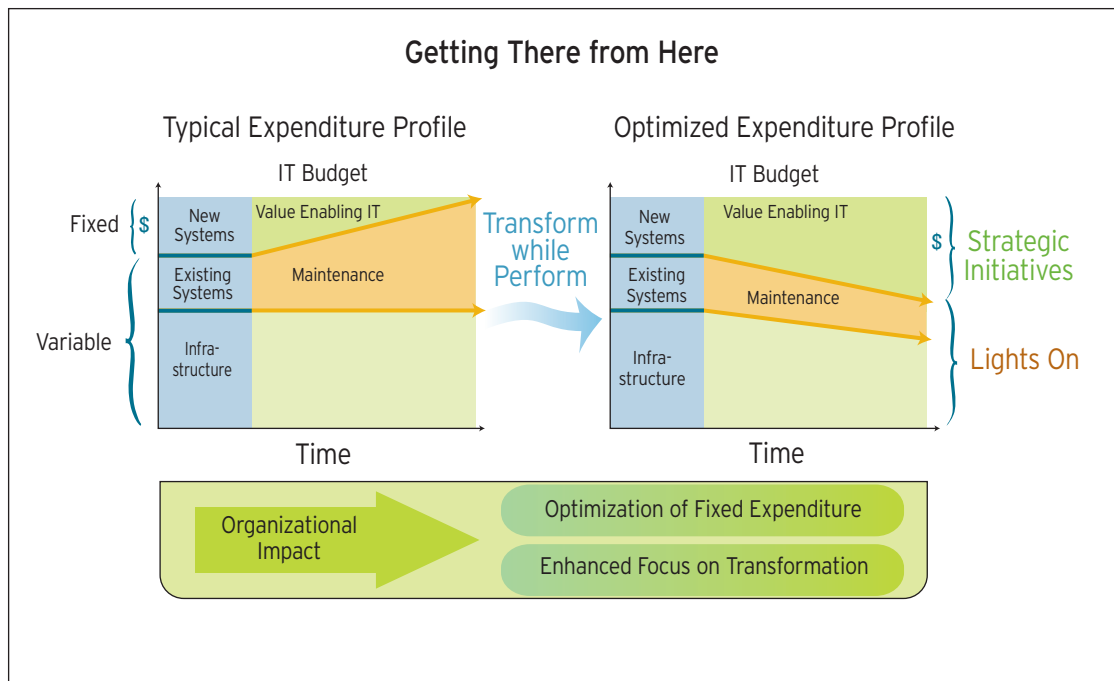


Figure 3

rationalization of the infrastructure landscape.

- **Eliminate incremental staff augmentation and move to a managed services environment.** Staff augmentation only ends up costing companies more money because they're not optimizing their strategic plan down the road.

In addition to the savings derived from lights-on optimization, we were also able to target \$35 million to \$50 million in additional savings during the first year, with the recommendation for the client to adopt managed services.

These principles are extremely important and set specific boundaries within which the methodology and framework can operate. These principles also enable the sequencing of different activities to develop the roadmap.

Refocusing on Strategy

At this particular client, there was an escalating spend on maintenance that was siphoning away resources from strategic initiatives. In fact, the CIO was considering shelving strategic projects to meet his cost-cutting mandate. The company

was using an inefficient sourcing strategy, consisting of multiple vendors by tower. Additionally, the company was also making many acquisitions every year, about half of which are fairly large-size companies, and the IT organizations were running in parallel and operating as separate entities from the parent company.

This is not unusual, but neither is it optimal, as maintenance, application development and infrastructure costs squeeze out the ability to be strategic (see Figure 3). A structured and detailed performance-optimization framework and underlying methodology and governing principles can specify the savings potential in all of these areas so the client can focus on strategy.

In addition to the savings derived from lights-on optimization, we were also able to target \$35 million to \$50 million in additional savings during the first year, with the recommendation for the client to adopt managed services. By showcasing several innovative contract structures in the model, management could evaluate alternate incentives. Creative risk/benefit-sharing

incentives offered additional savings, such as tiered volume discounts and other ways to front-load the savings in return for back-end volume.

Assuming the client completes these application and infrastructure rationalization efforts and implements our other recommendations, it should save well over \$100 million over the next five to six years. The methodology also incorporates "50,000-mile checkups," to periodically review and revise the IT performance optimization implementation roadmap to maintain its relevance.

This year, CIOs everywhere will be asked to meet goals and directives they've never approached before -- and that they may be unequipped to meet. Because of the urgency of meeting not just cost-cutting but also strategic performance initiatives, most CIOs will need help from advisors and vendors, and the most successful will choose service providers with proven success. Applied to other companies, the model described above can enable any organization to contain costs while making needed investments in initiatives that deliver business value, through both difficult and healthy economic times.

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