

Transform while Perform™ - Reduce IT Costs, Improve Business Performance

Executive Summary

Cognizant's Transform while Perform™ (TwP) methodology enables companies across industry to attain greater levels of productivity -- without additional funding -- by containing IT costs, modernizing underlying IT infrastructures and driving new business capabilities. This all-encompassing framework helps companies shift IT investments from tactical projects that often consume up to 80% of IT budgets to higher value initiatives that advance short- and long-term business objectives.

Through collaborative TwP discovery workshops, Cognizant helps clients size up their IT strengths and weaknesses, gain a better understanding of their business imperatives and create a roadmap to enable tighter business-technology alignment. Clients transfer resource-intensive projects such as infrastructure management and applications maintenance to Cognizant. And through its greater economies of scale, domain expertise and best practices, Cognizant can significantly reduce spend and create new IT operational efficiencies, improving the client's bottom-line performance. Freed-up resources can then be redeployed into core initiatives that transform the business. It is through TwP that Cognizant helps clients reap higher returns from their investment in IT and position themselves for the economic upturn.

Background

Throughout boom and bust economic cycles from the mid-1960s onward, IT investment carried corporate cachet. In many industries, more IT was equated with better. Competitive advantage was often measured in IT assets -- mainframe MIPs and proprietary network bandwidth. Accelerating investments in IT, however, quickly became a double-edged sword.

The ongoing process of adding new technology -- to initially facilitate competitive advantage -- led to layers and layers of (often redundant) legacy systems. Eventually, these systems consumed the majority of IT's resources yet drove little to no unique business value. Over time, an even greater proportion of the IT budget became inextricably tethered to maintaining legacy applications, systems and infrastructure, leaving fewer dollars for building new systems to advance and extend core business goals.

To help contend with mounting resource imbalances, many CIOs began turning to global services providers to handle traditional applications maintenance, integration and testing of both packaged and custom-built software. Taking this approach enabled CIOs to shave considerable dollars off their IT budgets, depending on the functional complexity of their systems and the geographic dispersion of their user populations.

Eventually, offshore providers were brought in to manage help desk, infrastructure (PCs, servers, software and networks) and related application value management activities to meet unrelenting corporate cost-containment mandates. The rationale: With applications maintenance and infrastructure management in some cases consuming nearly 80% of the IT budget, corporations worldwide needed help dealing with the mounting workload.

Today, many IT organizations feel they are in a bind. On the one hand, they need to cut budgets due to the economy -- budgets that already have very little room for additional trimming. On the other hand, the business and end users are looking for differentiation and productivity gains from investment in, and implementation of, new technology. Thus, the seeming Catch 22:

TwP was created to help clients address their costing priorities, while building a more modern IT foundation for future success.

How can IT deliver the goods without the budget to do so? The answer is in IT's ability to create its own discretionary budget, in "self-funding" the transition through an approach such as Cognizant's Transform while Perform™ (TwP).

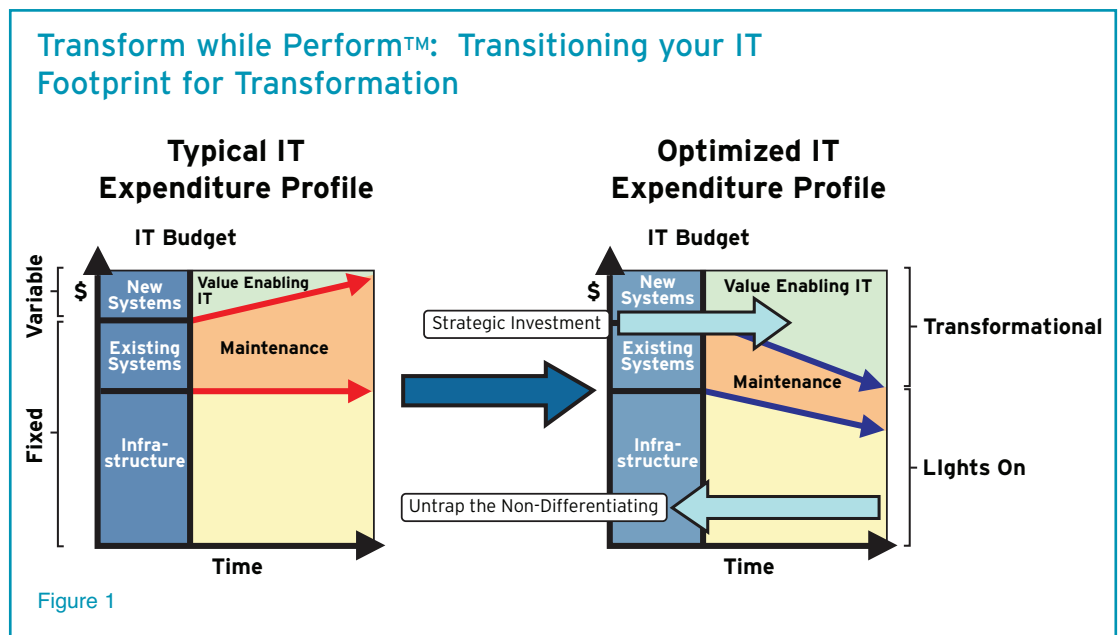
Cognizant's TwP methodology was created to help clients more efficiently leverage global IT services and hit their new budget targets more quickly and with less impact on IT staff. The methodology helps clients strengthen IT-business alignment, reduce operational risk and unleash internal resources to focus on core business activities by tasking Cognizant with "undifferentiating" IT activities. The end result:

a radically simplified IT infrastructure that supports greater business agility and investment in new technologies and capabilities that drive further globalization and virtualization of business operations. This white paper explains where TwP fits in the current economic climate, and how the methodology is enabling clients to transform IT while they improve business performance.

Shedding 'Context,' Focusing on 'Core'

In his book *Dealing with Darwin*¹, noted IT industry consultant Geoffrey Moore divides corporate activities into two buckets: "context" and "core." Moore's research reveals that companies able to devote laser focus to core strengths are more adept at innovating and achieving competitive separation. To avoid getting marginalized, Moore suggests companies jettison peripheral or "context" activities that consume resources that, in many cases, are already in short supply. They should then redeploy those resources into core activities that advance strategic objectives, Moore says. In an IT context, this means companies can reinforce their core strengths by ceding contextual activities (non-differentiating applications maintenance or infrastructure management work) to specialists, who with dedicated global resources, can deliver more cost effectively and efficiently.

¹ *Dealing with Darwin: How Great Companies Innovate at Every Phase of Their Evolution*, Geoffrey Moore, Penguin Group, New York, 2005



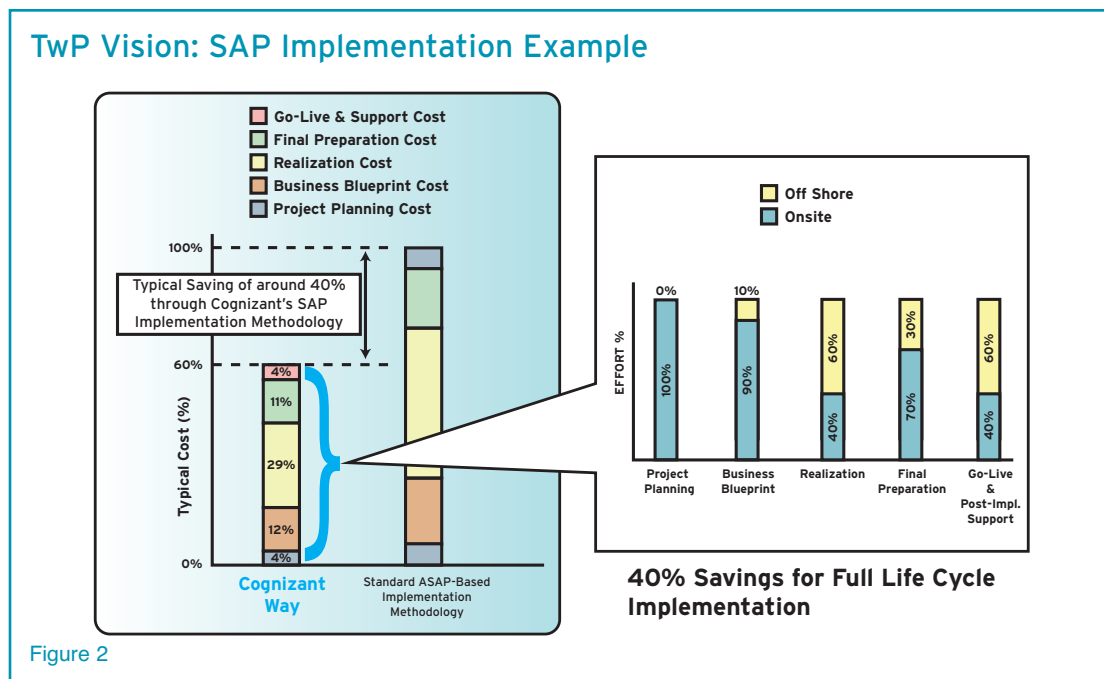
With IT budgets flat or trending down for the foreseeable future, Cognizant's TwP methodology helps clients obtain more business value from their IT expenditures. Clients leverage Cognizant's wealth of experience and delivery expertise to first define core and context activities (from an operational perspective), and then work from the get-go to achieve accelerated returns from their IT investments. At its core, TwP helps companies free resources from costly applications maintenance and IT infrastructure activities and reallocate them to strategic initiatives that support short- and long-term business objectives, without impacting operational performance. Built to extend the tight client collaboration embodied in Cognizant's Two-in-a-Box™ (TiB) client engagement model, the methodology helps clients meet near-term budget priorities, while building a more modern IT foundation for future success.

Cognizant's TwP (see Figure 1, previous page) is unique in numerous ways. First, it is value-based, harnessing Cognizant's considerable cost advantages, which are driven by a seamless global service delivery model. This model leverages a single project management and knowledge sharing platform (called Cognizant 2.0) to connect the best and brightest Cognizant resources across Asia, Europe and North and South America. Second, and perhaps what truly sets Cognizant's TwP apart, is that the methodology is driven by close client collaboration. This starts with TiB and is driven

home with discovery workshops that enable Cognizant to help clients create business-IT roadmaps focused precisely on desired business outcomes. As a result, Cognizant operates as a trusted business partner that is embedded in the client's operations and shares the client's business principles, culture and strategic objectives.

TwP's initial focus is to help clients meet immediate expense-reduction targets and derive greater value from resources "trapped" in tactical IT projects. Using focused discovery workshops, Cognizant works with the client to identify non-differentiating activities across the technology stack that can be offloaded to Cognizant at considerable cost savings. Once underway, clients can begin realizing annual cost savings of up to 40%, depending on the scale and scope of work offloaded to Cognizant (see Figure 2). Through follow-on workshops, Cognizant then helps clients probe deeper and find additional operational cost savings in upcoming and existing projects, highlighting new opportunities for reallocating more internal resources to strategic initiatives that are essential to the corporate mission (e.g., freeing up a COBOL developer to work on a business process management initiative). With Cognizant's TwP, companies can more flexibly balance new development with lights-on activities.

In sum, by tapping Cognizant for more contextual IT activities, corporations can then reallocate resources to new strategic initiatives without



adding incremental cost. This enables them to advance the strategic agenda without sacrificing business-critical IT projects that are increasingly falling victim to cost-savings mandates.

The TwP Workshop

The CIO's key challenge in the current economy can be distilled to the following: Doing more with less; balancing core, run-the-business concerns with discretionary, strategic initiatives; and ensuring that IT has the wherewithal to support future growth when the economy improves.

The TwP methodology commences with a series of intelligence gathering meetings in which the Cognizant project team interviews key client executives and project sponsors to better understand the organization's business and IT imperatives. From those meetings, they begin to map out tighter alignment between IT initiatives and business strategies, with an eye toward optimizing IT delivery in ways that meet today's requirements while anticipating tomorrow's needs.

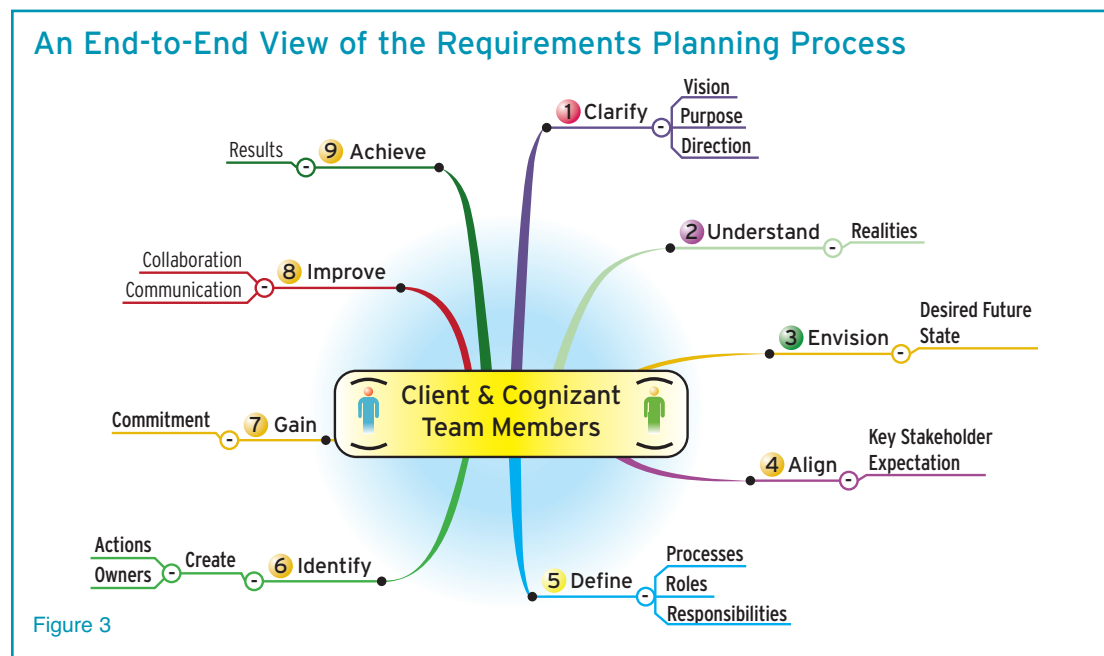
From there, the initial assessments are refined. Key client stakeholders are invited to participate in a multi-day discovery workshop. Attendees representing the extended company -- from IT through senior business leadership -- are assembled in a room (often offsite) to reach consensus on program/project priorities and build an implementation roadmap. All

program/project elements are covered, including: Business Process; Technology; Applications; Infrastructure; and Personnel. Typically, the executive sponsor of the program or project kicks off the workshop with a discussion of engagement goals (see Figure 3).

The Cognizant team begins by presenting results of its intelligence gathering exercise and solicits feedback. Assumptions are questioned during this portion of the workshop; big picture issues are dissected and frank give-and-take conversation takes place to create a comfortable environment for joint goal-setting.

Once agreement is reached on overall objectives, cost-saving targets and resource reallocation goals, a move-forward plan is developed to help define how Cognizant and the client will work together to reach these objectives. Importantly, strategic decisions that emerge from the workshops are documented in real-time using a graphical tool for capturing and managing information. This serves to minimize after-the-fact differences of opinion and general forgetfulness that often undermine extended strategic planning processes. At the session's conclusion, participants present recommendations to the executive sponsor and/or corporate steering committee that highlight:

- Current state of systems strengths and weaknesses
- Desired state opportunities (prioritized)



- Process details (where required)
- Barriers and measures of success
- An implementation roadmap

Inside the Workshop

One client with direct experience in the TwP workshop process is Mitsubishi Polyester Film, Inc., one of the largest producers of polyester film in the world. The company manufactures film from operations in Germany, Indonesia, Japan and the U.S. The U.S. unit decided to replace its 20-year-old Film Material Flow (FMF) plant-floor system, which was built to run in a Hewlett Packard environment. Mitsubishi had added functionality and subsystems to FMF over the years, resulting in a complex system. Cognizant was hired to build a modern FMF system in Microsoft .NET that would be easier to maintain and extend as a result of its Web services architecture.

In advance of the TwP workshop, Cognizant interviewed the critical stakeholders to jumpstart the business requirements collection process. A two-day, off-site workshop session soon followed, which joined key constituents from across the Mitsubishi operation with Cognizant business analysts to collaboratively address system priorities and project objectives. The workshop opened with a presentation from the sponsoring Film Manufacturing Manager, who laid out the organization's business expectations. After some group brainstorming, participants were broken down into smaller units divided by functional areas. "The smaller teams talked about things that could hamper the project or be barriers to communication," recalls Nancy Laye, Mitsubishi's IT director.

Next, the smaller teams mapped their key processes and broke down each into separate functions/tasks. Cognizant business analysts then created use cases and presented what they understood the new system's requirements to be. They then sought validation from the entire Mitsubishi team. "This was good for everyone, since with a big system like this, groups normally work in silos," Laye says. "This process fostered the opposite -- all members of the team learned what the entire system entailed, which sparked other ideas and questions that often don't come out or, if they do, they emerge later, during implementation. This helped us get a better product."

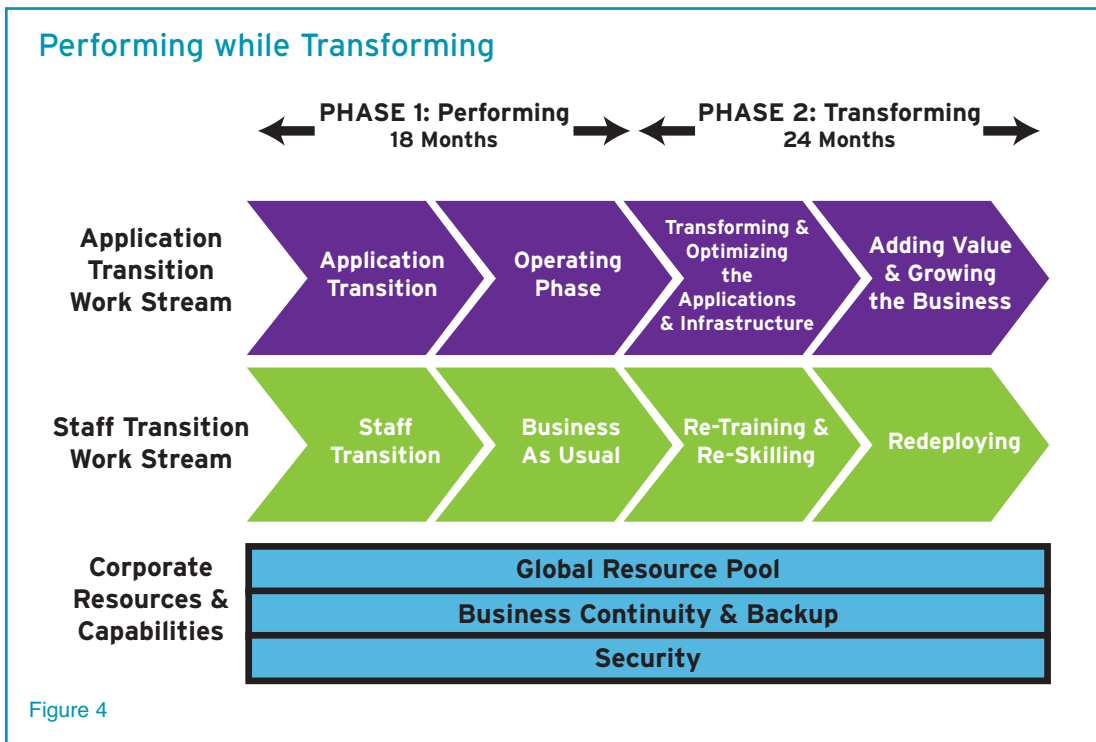
Finally, Cognizant helped Mitsubishi prioritize between the "must-haves," "nice-to-haves" and "dreamers." This helped the core team understand what was really key to the final system state, and reach agreement on a move-forward plan, Laye says.

Conducting the sessions off-site was important, Laye emphasizes. "If you stay in the office, it is too easy to get distracted and slip away. By working off-site, we committed a couple of days to get the business requirements work done. It worked well by keeping distractions to a minimum." TwP's structured workshop process enabled Cognizant to replace Mitsubishi's proprietary plant-floor system with one built on Microsoft's .NET Web services foundation in record time. By using .NET to create reusable components that can be exposed as Web services, Cognizant saved time and money building a new FMF system that has been easier to maintain since completion, allowing Mitsubishi's IT team to focus on higher value initiatives. "That's one of the great things about Cognizant -- they have a process for everything," Laye concludes.

TwP -- An Implementation Perspective

Once recommendations from the workshop are submitted and approved, the hard work begins. TwP engagements are broken into two phases: Performing, which can take up to 18 months, and Transforming, a 24-month-long process focused on optimizing infrastructure, applications and staff across the enterprise with the goal of delivering demonstrable business value (see Figure 4 on the following page). TwP's all-encompassing structured methodology focuses simultaneously on IT operational process, governance and philosophical change.

Depending on the scope of the engagement, the transition phase normally begins with a detailed portfolio analysis. For applications, the process looks at the existing base of applications to understand what is working well, what might need to be upgraded and what needs to be replaced. A roadmap is then constructed to earmark which applications will be transferred to Cognizant to maintain and which programs will be upgraded or replaced. This assessment is performed within the context of the impact these changes will have on the client's retained staff.



Under the performing phase, work on optimizing applications and infrastructure presses forward, driven by the business alignment goals established in the workshop sessions. With 18 months of cost savings under their belts that can equate to 40 cents on the dollar, clients can begin to focus on IT initiatives that grow their top lines.

The following recommendations can help smooth the TwP process:

- Quickly kick-start the integration and applications transition process to reach a “steady state” in the shortest time possible.
- Focus on ensuring a smooth transition of application management services across all technology domains.

TwP in Action

Cognizant has deployed TwP in a variety of industries. What follows are two examples of how TwP can be applied to reduce costs and create a more modern and efficient technology infrastructure. One example demonstrates how TwP was leveraged in an SAP® enterprise applications environment; the other reveals the methodology’s role in a custom applications development project that used Microsoft’s .NET foundational technologies. Cognizant has strong partnerships with both of these leading

enterprise software vendors, as well as documented success with clients of both companies’ products.

In the SAP space, TwP is focused on reducing the risk associated with large-scale enterprise development or migration projects and, thereafter, reducing total cost of ownership for applications maintenance. For SAP clients, TwP can begin with a strategic portfolio analysis to identify the best business and technological path toward maximizing the client’s investment in SAP. From there, the team uses discovery workshops to ensure the smooth transition and management of applications involved in the SAP upgrade or migration process and tight alignment with business goals. What emerges is a detailed business case and SLAs to ensure quality delivery standards are met.

Cognizant then begins the project using proven SAP development, testing and change management frameworks to deliver a more modern, maintainable and functionally rich applications environment. Once in place -- and with total cost of ownership dramatically reduced -- Cognizant works with the client to reallocate client resources to infuse the revitalized infrastructure with new capabilities that drive business process efficiencies. Cognizant operates an SAP Center of

Excellence, where it develops and enhances best practices in SAP implementation and business process renovation.

One SAP client that has completed the TwP process is Serena Software, a 27-year-old privately held provider of application lifecycle management software, based in San Mateo, CA. Leveraging the TwP methodology, Serena completed a large-scale consolidation and standardization of its SAP application portfolio that saved company at least \$700,000 and was performed in approximately half the time of competing proposals.

TwP is also helping clients more effectively migrate legacy applications (which are expensive to maintain and difficult to find resources to work on) to lower-cost, Windows-based environments that are built on Microsoft's .NET Web services architecture. Such migrations are aimed at first reducing administrative overhead and systems complexity, by outsourcing noncritical maintenance activities to Cognizant. Clients get an immediate operational and financial performance boost by tapping lower cost Cognizant resources, while blueprints are built to migrate business-critical applications to more modern, flexible and interoperable services-oriented architectures.

One company that has gone through the TwP process for .NET is Schwan's Food Co., a privately-held, multibillion-dollar frozen foods provider in Marshall, MN. The global company realized significant annual savings by retiring its mainframe environment via a phased approach driven by TwP, reducing maintenance and development costs, and speeding time-to-benefit for new applications. Schwan's reduced its code base by 85% by migrating to the Windows Server platform, and gained 30% more computing power in the process. The company's IT department is also more responsive now to user requests, and has boosted user productivity by 10% via easier system navigation. In addition to hard-dollar gains, the month-end financial closing effort was reduced 70%.



Conclusion

Transform while Perform™ provides clients with the framework and tools necessary to boost operational performance from their investment in IT, while transforming their businesses -- a particularly important concern in surviving the current economic downturn. It also enables them to keep pace with line-of-business demands for new IT systems that keep companies relevant and competitive in times both thick and thin.

With its superior economies of scale, proven best practices and deep domain and technology expertise, Cognizant can help companies gain better operational leverage by performing contextual IT work -- which can account for up to 80% of their annual IT budgets -- at a lower cost. This enables CIOs to reallocate "trapped resources" and redeploy retained IT staff to higher value initiatives like specifying new customer-driven applications and IT infrastructure. These initiatives advance business objectives -- focused either on further Capex/Opex cost reduction or revenue-generation initiatives that ensure the company is prepared for the next growth cycle.

TwP allows clients to:

- Take advantage of Cognizant's ability to apply labor arbitrage to reduce IT expenditures over time and drive operational performance.
- Leverage intellectual arbitrage via Cognizant 2.0 to transform IT service delivery by tapping the best resources worldwide and to enable greater operational efficiencies by virtue of our seamlessly global model.
- Infuse IT with new skills and ways to reap further cost savings and develop business processes that advance corporate goals.

Once TwP's value is demonstrated on a project basis, clients begin to see the virtue in partnering with Cognizant on engagements that deliver IT-enabled transformation across the extended company. Cognizant believes the true measure of success in IT services partnerships is not in cost savings alone, but also in our ability to help clients outperform the competition and to achieve superior returns from their investment in IT. We call this concept ROO (or Return On Outsourcing). TwP is a critical ingredient in achieving ROO.

About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting and business process outsourcing services. Cognizant's single-minded passion is to dedicate our global technology and innovation know-how, our industry expertise and worldwide resources to working together with clients to make their businesses stronger. With more than 40 global delivery centers and approximately 61,700 employees as of December 31, 2008, we combine a unique onsite/offshore delivery model infused with a distinct culture of customer satisfaction. A member of the NASDAQ-100 Index and S&P 500 Index, Cognizant is a Forbes Global 2000 company and a member of the Fortune 1000 and is ranked among the top information technology companies in BusinessWeek's Hot Growth and Top 50 Performers listings. Visit us online at www.cognizant.com.

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