

IT Cost Optimization

A Framework For Constraining Budgets Without Sacrificing Business Transformation

CIOs are under extreme economic pressure to further reduce spend while maintaining high service and quality. Cognizant offers fresh thinking and guidance on how to work through the cost-optimization process.

By Vineet Kapur and Akash Jain

With the relentless downturn in the global economy, business growth has ground to a halt, with several companies and entire industries facing top-line declines. As a result, businesses are forced to focus on trimming their bottom lines by employing aggressive cost-cutting measures, sometimes to the detriment of strategic business transformational efforts.

Doing more with less is nothing new for CIOs. However, two things make cost-cutting especially difficult this time around. For many companies, IT expenditures have for the last few years already been pared down extensively, making further 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 cost optimization. But the key imperatives in these economic times are speed, results and an understanding that strategic initiatives should not be sacrificed, no matter how deep the cuts must be.

Cognizant Business Consulting (CBC) has developed a framework and related methodology to help IT leaders meet cost-cutting objectives while preserving ongoing business transformation initiatives. 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 cost management.
- Identify short- and long-term savings from IT resources and optimizations.
- Syndicate an implementation roadmap to transform cost-savings opportunities into reality. Eventually, it is the health of the IT core that will determine the degree to which IT can benefit.

FIGURE 1:

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, 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

- 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).

Our framework was formulated in response to client requirements. Cognizant was 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 where, currently, just one-third of its supply chain extended into. These geographies included China, India, Asia Pacific, 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 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.

Using Cognizant's 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 the company's 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 cost 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 Cognizant’s internal centers of excellence to supply optimal cost 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

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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.” 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.

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.

Opportunities for IT cost savings are scrutinized for “optimization gaps” by benchmarking the company’s performance with the highest possible level of detail. Benchmarking is performed by technology tower, IT/business process and personnel. A key step in this process is obtaining or constructing relevant benchmarks that intersect on several dimensions, including competitors/industries, geographies, company size, etc. Yardsticks are obtained from various

sources, including public and purchased sources, the client organization itself and -- importantly -- Cognizant’s broad and deep experience across various industries and technologies.

Benchmarking IT costs is not simple. Executives must look much farther than just their IT budgets, and they must understand all components of their business that could also impact IT costs. That said, this step is crucial, and the largest optimization gaps will undoubtedly provide an agenda for scrutiny and analysis with client stakeholders. Ultimately, it will also help identify specific savings opportunities.

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.

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 cost 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 stayed 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.

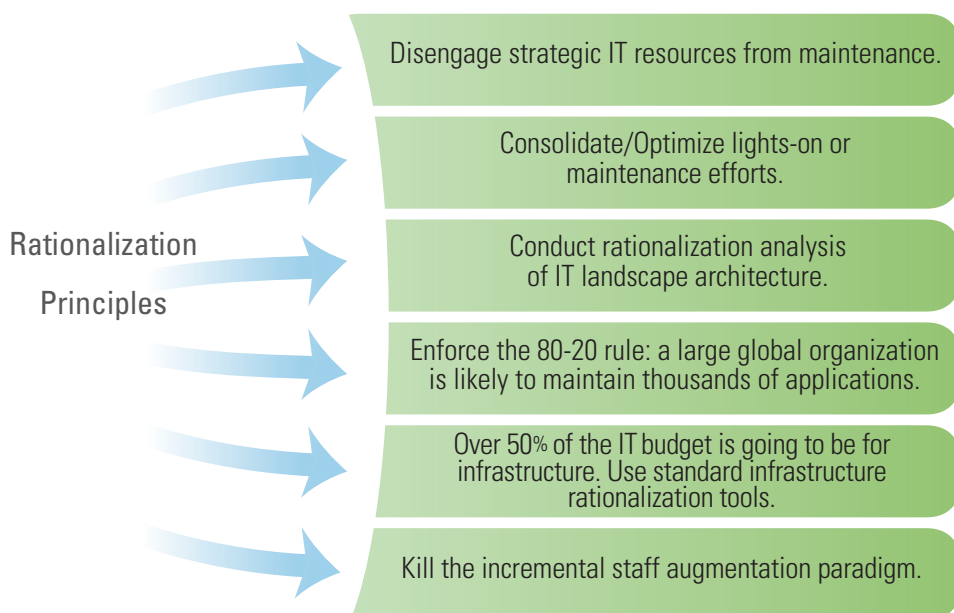
■ **Consolidate and optimize maintenance efforts with disparate vendors.** It might make sense in some cases to have multiple vendors, but if you have too many of them, it's inefficient as well.

■ **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 cost 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 special-

FIGURE 2:

Cognizant Framework of Rationalization Principles



ized 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 Cognizant’s Infrastructure Portfolio Analysis (ISPA) methodology to perform a 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 thinking strategically down the road.

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.

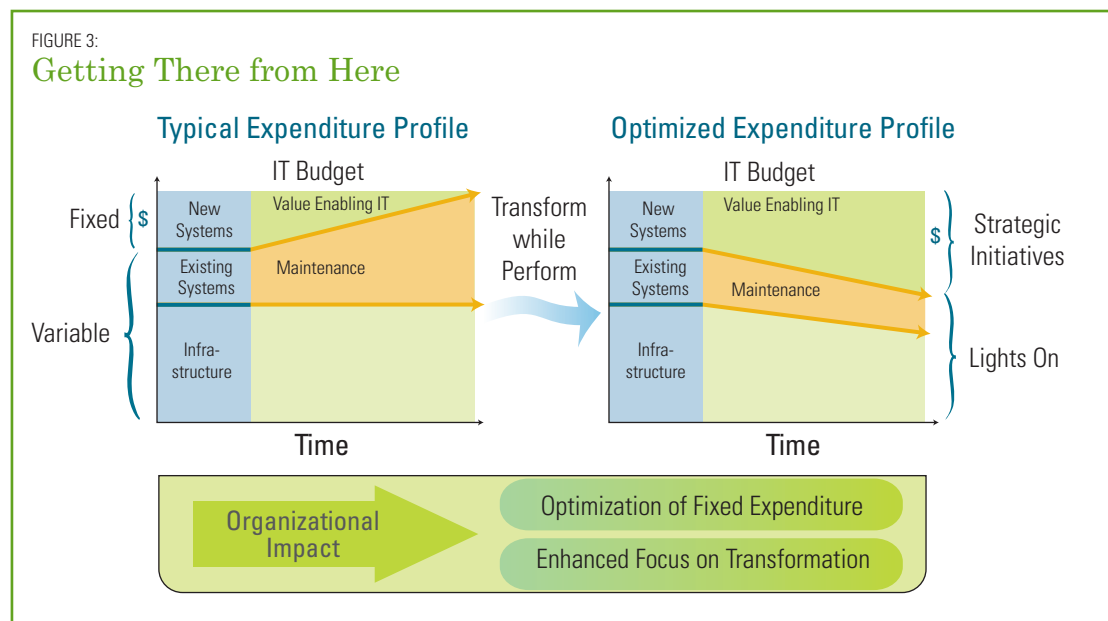
At this particular client, there was an escalating spend on maintenance that was siphoning away resources from strategic initiatives. In fact, the CIO was considering shelving strategic projects to meet his cost-cutting mandate. The company was using an inefficient sourcing strategy, consisting of multiple 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 cost-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, Cognizant was 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 frontload 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 Cost 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 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.

Vineet Kapur is a Principal in Cognizant's Business Consulting group (CBC). Vineet has over 25 years of experience in corporate and business strategy, mergers and acquisitions, finance and management consulting. Prior to joining Cognizant he was the CFO of Touchstone Asset Management. He was previously a Corporate Development Specialist at McKinsey & Company, specializing in embedded cross-functional engagements within the healthcare, information technology, financial services, media/entertainment, food and hospitality industries. Vineet can be reached at Vineet.Kapur@cognizant.com. Akash Jain is a Senior Consulting Manager in CBC. He can be contacted at Akash.Jain@cognizant.com.

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 over 50 global delivery centers and 63,700 employees as of March 31, 2009, we combine a unique onsite/offshore delivery model infused by 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.

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Passion for building stronger businesses

World Headquarters

500 Frank W. Burr Blvd.
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll Free: +1 888 937 3277
Email: inquiry@cognizant.com

European Headquarters

Haymarket House
28-29 Haymarket
London SW1Y 4SP UK
Phone: +44 (0) 20 7321 4888
Fax: +44 (0) 20 7321 4890
Email: infouk@cognizant.com

India Operations Headquarters

#5/535, Old Mahabalipuram Road
Okkiyam Pettai, Thoraipakkam
Chennai, 600 096 India
Phone: +91 (0) 44 4209 6000
Fax: +91 (0) 44 4209 6060
Email: inquiryindia@cognizant.com