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IT Cost Containment RoundTable

April 2009



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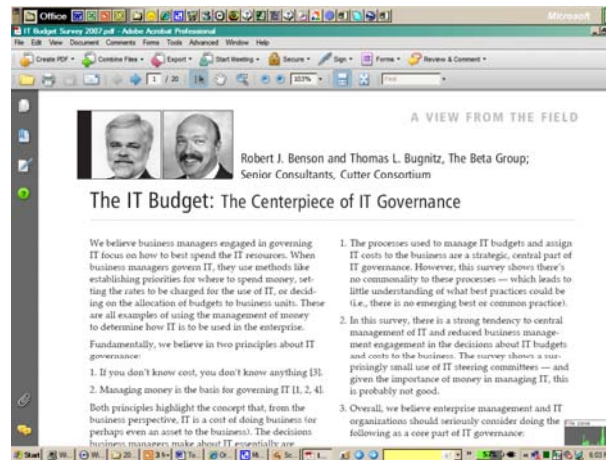
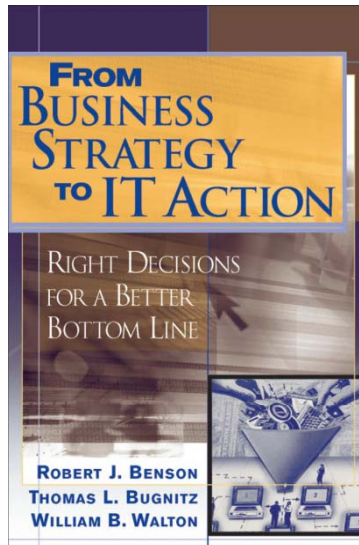
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Background Information

CUTTER CONSORTIUM



Many
Cutter
Publications

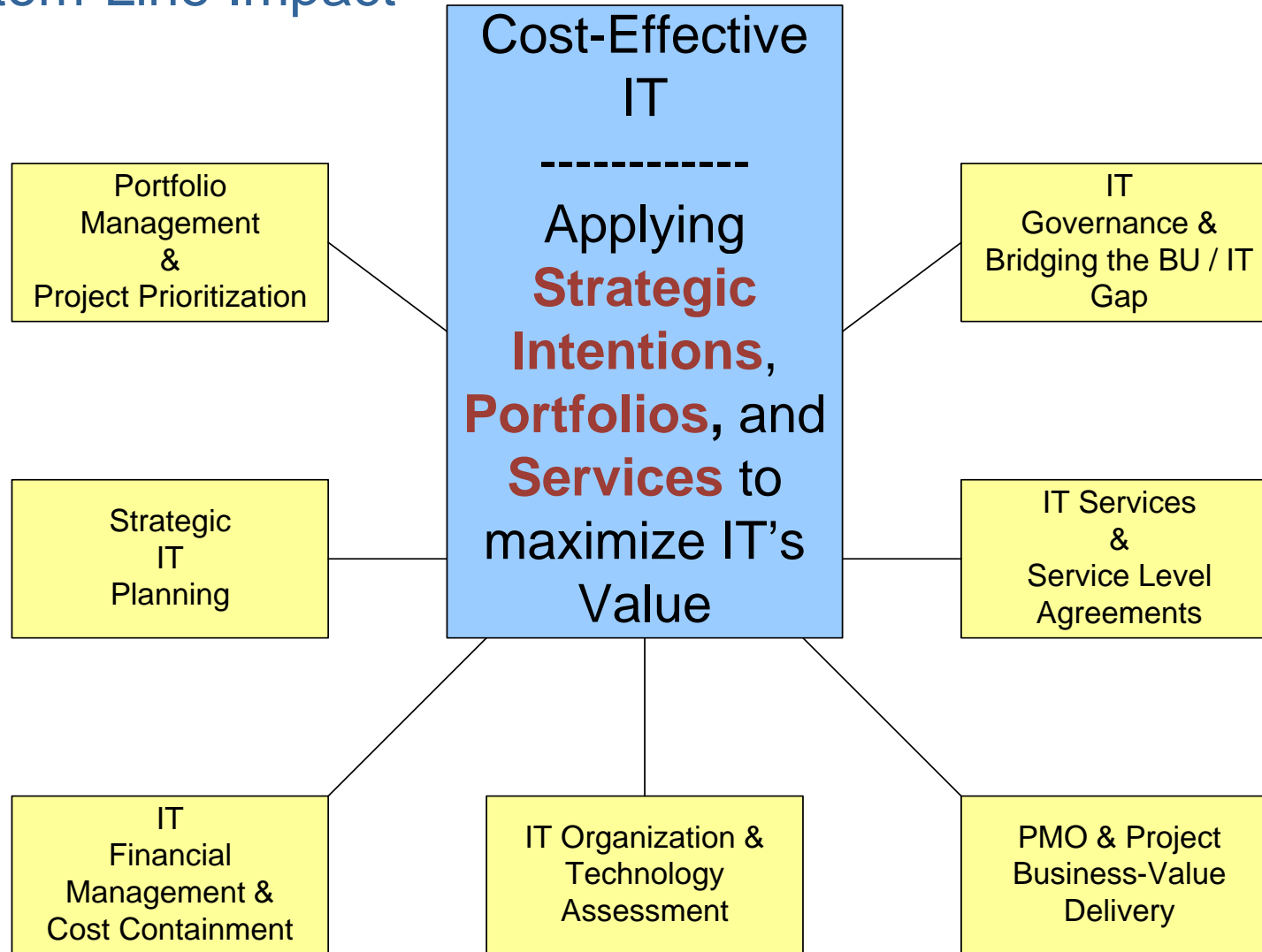
Managing money is the basis for governing IT

If you don't know cost, you don't know anything



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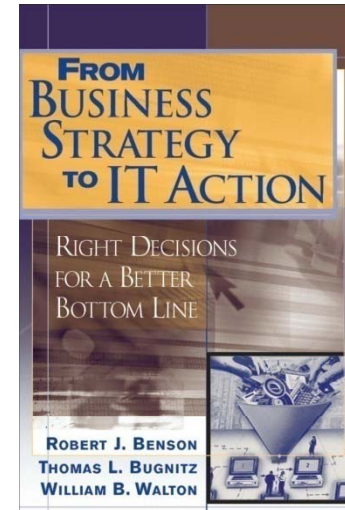
“From Costly to Cost Effective: Transforming IT for Efficiency and Bottom-Line Impact”





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Call 212.299.2112

- We are an industry leading research and consulting firm. We specialize in strategic and financial management of IT for Fortune 500 companies and government agencies worldwide. We are a resource to senior executives seeking to understand how to effectively manage information technology to support business strategies and performance, while controlling overall IT costs. Our practice is based on practical management approaches centered on a very simple idea: **a company should only invest in that which will directly support its business strategies and operational effectiveness.**



- **Selected Client List:**

AIG (Global)
AOL
Amtrak
AT&T
USA - ATF
Blue Cross/Blue Shield of Oregon
Chrysler Financial
CIO Magazine
CoBank
Cosun (Netherlands)
Department of Justice
DOW Chemical
EDS
Eli Lilly
USA – FBI

First Interstate Bank
Gartner
General Motors
USA - GPO
Halliburton
H&R Block
Holderbank (Switzerland)
IBM
Index/CSC Butler Cox (Netherlands)
USA – Department of Justice
ING (Global)
ING NL (Netherlands)
iVesta Financial Services
Korean Air Lines (Korea)
Laclede Steel
Lafarge
Lincoln Life
Lorillard
Maritz

Mercer
Microsoft
Northrop Grumman
Clarica Insurance (Canada)
Philips na (Netherlands)
The Regence Group
Roche
Sandia Laboratories
Sears (Canada)
Siemens (Belgium)
Sprint PCS
The State of Kansas
The State of South Dakota
Texas Guaranteed Student Loan
Tulane University
USA - Customs and Border Patrol
USA - Geological Survey
University of Wisconsin System
Cutter – Mexico
USAA



Fundamental Cost Containment

1. What (Where) exactly are we spending on IT?
 - Projects
 - Lights-on spend
 - Distribution of costs
2. Are we spending in the right places, on the right things?
3. How well does our IT Spend achieve our business goals? *Will this remain true in the future?*
4. Is our IT Spend (applications, infrastructure, development) performing at the quality and service-levels needed to operate the business? *Will this remain true in the future?*
5. Are there significant business risks hidden in the current applications and infrastructures used in the business?

Eliminate things not needed

- Example: low value projects
- Example: poorly used services
- Example: “entitlement” support

Reduce cost – especially where performance is low, risk is high

Reduce cost – especially where performance is better than needed or where cost is higher than affordability

Stop doing lowest priority / lowest value things

- Example: unprioritized projects
- Example: “entitlement” support



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Cost Reduction Principles – Supply Side

- 1. Every dollar is up for examination, every dollar is a potential savings**
- 2. Every dollar needs to be examined for its worth to the company**
- 3. Every dollar should be categorized in the services/portfolios**
- 4. There should be no entitlement dollars for maintaining/enhancing existing applications. All spend on those items should be examined**
5. “Small” under the radar projects and spends are like appetizers...they run up the tab and don’t contribute much. There should be a special process for looking at small projects and limiting the dollars spent in that area
6. Cost Containment isn’t about cutting costs. It’s looking at expenses and minimizing what needs to be spent to provide adequate services
7. Services need to be defined as to what level of quality is the minimum for supporting the business



Cost Reduction Principles – Demand Side

Every business need is up for examination, every dollar is a potential savings

Every business demand for IT needs to be examined for its worth to the company

Every prospective IT response to demand should be categorized in the services/portfolios; this effectively categorizes the service required by the business, and gives the foundation for identifying its cost and value to the business

There should be no entitlement dollars for maintaining/enhancing existing applications. All spend on those items should be examined

“Small” under the radar projects and spends are like appetizers...they run up the tab and don’t contribute much. There should be a special process for looking at the demand for small projects and limiting the dollars spent in that area

Cost Containment isn’t about cutting costs. It’s looking at expenses and minimizing what business identifies as the need for adequate services

Business should categorize the IT demand based on the minimum for supporting the business



Fundamental Cost Containment Issues

	Projects	Appli- cations	Infra- structure Services
(Typical Total IT Costs)	15%	40%	30%
(Typical Total Business Costs)	Twice	Ten Times	Twice
What exactly (by BU, functions) are we spending on IT?			
Are we spending in the right places, on the right things?			
How well does our IT Spend achieve our business goals?			
Is our IT Spend performing at the quality and service-levels needed?			
Are there significant business risks hidden our IT?			

**Our Research:
Especially
Large
Gaps Here**



The Traditional Cost-center Approach To Cost Reduction

A Checklist

- Renegotiate vendor contracts
- Offshore
- Defer upgrade, releases
- Defer modernization
- Consider the full-cost approach
- Energy
- Space (e.g., containerization)
- Part-time

Consider the “best place to work” approach

- Retention
- Effect of training

Deferrals

- Project
- Upgrades
- New releases
- Lengthen service life (e.g., renewals of PCs)

Service Level Reductions

- Reduce service levels



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Roadmap Overview

Eliminate things not needed

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	Short Term	Medium Term	Long Term
Eliminate things not needed	Checklist <hr/> Cost & Use		Assessment
Reduce cost – especially where performance is low, risk is high		Assessment	
Reduce cost – especially where performance is better than needed or where cost is higher than affordability		Assessment	
Stop doing lowest priority / lowest value things	Prioritization		Assessment

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Fully Identify IT Costs (and a Checklist)

	Included in the IT Budget	Opportunity For Cost Reduction	Feasible for Cost Reduction	Strategy for Cost Reduction
a. Space costs	Y N	1 2 3 4 5	Y N	
b. Benefits	Y N	1 2 3 4 5	Y N	
c. Insurance	Y N	1 2 3 4 5	Y N	
d. Allocations of corporate costs	Y N	1 2 3 4 5	Y N	
e. Energy / Utilities	Y N	1 2 3 4 5	Y N	
f. Voice communications	Y N	1 2 3 4 5	Y N	
g. Wireless Networking	Y N	1 2 3 4 5	Y N	
h. End-user PCs	Y N	1 2 3 4 5	Y N	
i. End user laptops, PDAs, etc.	Y N	1 2 3 4 5	Y N	
j. Networking	Y N	1 2 3 4 5	Y N	
k. Desktop Application Software	Y N	1 2 3 4 5	Y N	
l. Server Application Software	Y N	1 2 3 4 5	Y N	
m. Operating System Software	Y N	1 2 3 4 5	Y N	
n. Backup Costs	Y N	1 2 3 4 5	Y N	
o. Disaster Recovery	Y N	1 2 3 4 5	Y N	
p. Other _____	Y N	1 2 3 4 5	Y N	



Understand Costs

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App #	Functional Area	Application Name	Annual Cost index (100)	Annual Cost (000)	Computing - Data Center	Computing - Local	Maintenance	License / Contracts	Use by the Business	Breadth
18	manufacturing	Warehouse. Replenishment Sys	100	4098.3	0.0	3221.0	585.4	291.9	5	5
17	sales	Sales Marketing Database	95	3896.0	3896.0	0.0	0.0	0.0	2	3
15	manufacturing	Retail Shipment Data Warehouse	77	3138.9	0.0	2183.7	0.0	955.2	5	5
5	manufacturing	Finished Goods .Inventory	57	2351.3	43.0	0.0	257.0	2051.3	3	3
12	sales	Prime-Customer Internet Portal	48	1983.0	1423.0	0.0	484.6	75.4	5	5
4	financial	Financial Planning / Forecasting	45	1828.1	611.7	1.8	1083.2	131.4	2	3
16	sales	Sales Force Automation	44	1809.9	672.5	0.0	742.1	395.3	5	5
6	financial	General Ledger Consolidations	43	1742.9	0.0	493.4	795.1	454.4	3	3
7	administrative	Human Resource Planning	36	1480.1	1480.1	0.0	0.0	0.0	3	3
1	financial	Accounts Payable, AR Systems	29	1198.6	214.8	0.0	567.9	415.9	5	5
11	financial	Order Processing Systems	26	1081.3	869.9	0.0	199.4	12.0	3	3
14	manufacturing	Quality Examination System	23	960.7	0.0	2.4	0.0	958.3	2	5
8	manufacturing	Maintenance Management	22	898.9	692.9	0.0	104.0	102.0	5	2
2	sales	Customer Information	17	689.5	102.6	0.0	540.9	46.0	5	2
13	manufacturing	Production Planning and Mngt	16	659.8	0.0	32.8	0.0	627.0	5	3
3	cust service	Electronic Bill Tracking	8	328.6	29.1	0.0	163.3	136.2	5	3
10	sales	Merchandising Payment Sys	7	276.6	221.0	0.0	43.6	12.0	3	3
9	sales	Marketing Customer Support	5	184.8	0.0	25.9	58.4	100.5	2	5
All	Various	Small Applications		2147.1	1000.0	500.0	500.0	147.1		
				30754.4	11256.6	6461.0	6124.9	6911.9		

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Connect Cost to Affordability

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		Strategic Alignment	Technical Risk	Service Level and Quality	Dependency	Annual Cost (000)	OPPORTUNITY
Sales	Sales Marketing Database	361	3	2	3	3,896.00	
	Sales Force Automation	343	4	3	5	1,809.90	
	Marketing Customer Support Systems	203	3	4	3	184.8	
	Merchandising Payment Systems	195	3	3.5	3	276.6	
	Customer Information	169	2	3.5	5	689.5	
	Prime-Customer Internet Portal	111	2	2.5	5	1,983.00	
	TOTAL SALES					8,839.80	
MFG	Quality Examination System	414	4	4	2	960.7	
	Production Planning and Management	271	3	4.5	5	659.8	
	Finished Goods Inventory	245	3	2	3	2,351.30	
	Retail Shipment Data Warehouse	225	2	2.5	5	3,138.90	
	Maintenance Management	158	1	4	3	898.9	
	Warehouse. Replenishment System	128	4	3	4	4,098.30	
	TOTAL MANUFACTURING					12,107.90	
Administration	Order Processing Systems	459	2	2	5	1,081.30	
	Accounts Payable, Receivable	288	2	3	5	1,198.60	
	Financial Planning / Forecasting	254	3	2	2	1,828.10	
	General Ledger	207	3	2	3	1,742.90	
	Electronic Bill Tracking	169	1	4	5	328.6	
	Human Resource Planning	120	3	4	2	1,480.10	
	TOTAL ADMINISTRATION					7,659.60	



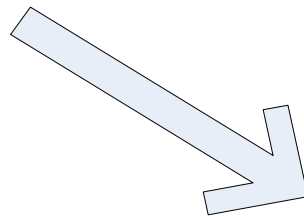
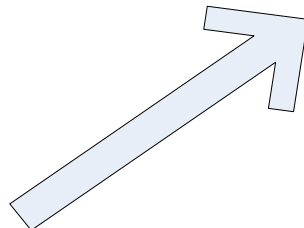
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If You Don't Know Cost ...

Cost for Total IT Spend

Applications
Infrastructure Services
User Services
Projects

80% accuracy is OK



Cost for Applications

Infrastructure and Operations Utilized
Maintenance and Support
Contracts
Licenses

Cost for Infrastructure Services

Infrastructure and Operations Utilized
Maintenance and Support
Contracts
Licenses

Cost for User Services

Support

Cost for Applications

Infrastructure and Operations Index of 1 to 10
Maintenance and Support FTE estimate

Cost for Infrastructure Services

Infrastructure and Operations Index of 1 to 10
Maintenance and Support FTE estimate

Cost for User Services

FTE

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Roadmap Overview

Make Effective Decisions

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Essential Points of the Cost Reduction Roadmap

Short-Term – Cost Center

- Perform the cost reduction checklist –
(This focuses on the traditional cost centers)

Mid-Term – Services

- Identify the services
- Assess the services
 - Cost
 - Performance
- Perform the service cost reduction checklist

Long-Term – Portfolio

- Identify the strategic alignment of IT services
- Perform the portfolio cost reduction checklist

