Part C: Reducing Costs – Increasing the Efficiency and Effectiveness through IT

There is a natural limit to how IT can generate economic benefits and increase corporate value: It's IT cost. Many value-oriented IT projects are discontinued, not because the resulting benefits cannot be quantified but because the company's focus has shifted. And this shift does not necessarily have to include changes in the long-term corporate strategy, as would be caused by external developments in market and competition: To produce less-than-positive effects, all a company needs to do is shift its focus from IT growth drivers to IT-driven cost reductions, as often happens in times of economic downturns or internal restructuring.

Companies taking this route lower their chances for future growth and value increase. Therefore new IT projects, as well current IT operations, should be benchmarked and prioritized as early as in the planning phase (cf. Section B, Chapter 2, 'IT Planning'). A continuous *IT optimization* on this basis – including everything from IT applications to IT infrastructure to strategic IT sourcing – offers numerous possibilities to lower IT cost without jeopardizing an optimal support to business processes.

In addition to these efforts to optimize the cost/benefit ratio of IT, companies can also obtain savings in IT procurement – either by establishing ('spinning-off') *internal IT service providers* or by *outsourcing IT services.* It will depend on the development stage of the company's IT landscape what needs to be done most urgently:

- ■ *Stage 1: Fragmented IT.* The greatest optimization potential – and the most pressing need for action – will exist at companies operating without valid IT standards, and with IT departments that do not understand the need for IT architectures: The resulting diversity of IT applications and infrastructure will drive up IT costs and limit IT performance. At this stage, IT sourcing decisions are often triggered by requests from technical departments and justified with available budget reserves, and there is little flexibility for 'unplanned' IT purchases. As a result, the costs of IT procurement tend to be high. The IT and business departments have not agreed on target service levels or performance figures, so service quality is rather poor. There are no customer analyses, and users do not really expect to get effective IT support if problems occur in day-to-day business.

- ■ *Stage 2: Cost oriented IT.* At this stage, standards have been established for individual business units, limiting at least the costs of IT applications. Some cost reduction opportunities are also exploited in IT procurement – provided it really adheres to those standards and do not tolerate a multitude of exceptions and individual solu-

tions, as will often be the case at this stage. As far as IT service levels are concerned, some basic performance figures have been introduced which, however, are not used as a basis for service agreements between the IT and business departments; as a result the support is still inadequate. All user requests are accepted and dealt with in succession, without any prioritization, providing some degree of user support in day-to-day business. Cost reduction opportunities through IT outsourcing are seldom used at this stage.

- *Stage 3: Standardized IT.* At this stage, corporate standards have been introduced and architectures have been developed which are scalable in certain areas. IT, thus, is largely standardized. While procurement is based on the standards defined for IT architecture, there is no obligation for the divisions to adhere to these standards, resulting in additional costs through individual purchases. In some cases, IT is outsourced to external firms – not for cost reasons but to bridge resource gaps. IT support to the business processes is enhanced by exchanging selected staff members between the IT and business departments; its quality is, however, difficult to assess since most service agreements and performance figures – obtained through sporadic customer surveys – are rather informal. When dealing with requests, IT staff make sure to tackle core issues first, which is a major improvement to user support.

- *Stage 4: Optimized IT.* At this highest development stage, company-wide standards for hardware, software, and networks have been communicated and accepted, and architectures have been introduced which are expandable in certain parts. This way, excessive costs are largely avoided in both, IT applications and infrastructures. IT procurement actively exploits cost savings opportunities by adhering to the corporate standards and allowing very few exceptions only. In global procurement the company employs strategic sourcing techniques; all IT projects undergo rigorous make-or-buy analyses. A tight linkage of IT to the company's business activities is promoted by staff rotation, both within the IT department and between IT and the business units (and vice versa). It is further supported by incentive agreements and programs for proactive employee development and technology training. Service level commitments, quality and efficiency criteria have been introduced and are monitored on a regular basis. Internal customers' perception of internal service levels is regularly analyzed and measured. To ensure optimal support for users in day-to-day operations, quick-response teams have been installed which deal with incoming requests according to their business relevance.

At each of these four stages, there is considerable potential for IT optimization and a professional management of internal and external IT service providers. Its goal must always be to decrease cost in such a way that the value potential of IT for the company is never adversely affected. After all, the purpose of utilizing IT is to increase corporate value!