

The Importance of Protecting IT Investment in a Downturn

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IT – The Easy Target

When the going gets tough, the IT budget gets going! Or so it seems in most companies. The IT budget is a massive number in most Financial Services companies; a very substantial percentage of total spend and not always well understood or well-valued by senior executives. It's the easy (lazy) target for serious cost reduction.

Take Care

Before wielding the hatchet, though, perhaps we should remind ourselves of the fundamental role that IT plays in the Financial Services arena? For us, IT is much more

than just an adjunct to the business – it is the business. IT is our factory, our sales team and our customer service. By all means, target IT efficiencies, but don't destroy or endanger business value or future capability.

Where can I expect to reduce my IT costs?

Clearly, in the current economic climate, something has to give. So, what opportunities are really available to reduce IT expenditure without risk? My own experience, managing cost cutting strategies within the industry, has highlighted a number of target areas:

- Start with an IT Workload review. Look at in-progress and planned projects/change requests and prioritise them by business value. Accelerate those that reduce cost and purge those that are no longer relevant to today's environment. This is probably not the time for those grand infrastructure renewals!
- Go for process efficiency, both Business and IT, and use tools such as Six Sigma to reduce waste and make multiple small improvements.
- Let go of IT agency staff and protect the skills investment in your permanent staff. They have your business knowledge and the right IT skills. They are your future. 'Agency' should equate to variable and dispensable resources – prove it!
- Review all hardware and software licences and contracts. Are you paying for things you no longer need or for a volume which no longer applies. When did you last renegotiate your IT contracts? Now could be the right time to do so.
- Reduce your IT Energy consumption – investigate hardware consolidation, virtualisation, decommissioning old technologies.

- Consider outsourcing your data processing/infrastructure operation and maintenance. There are a lot of hungry people prepared to offer excellent service in this area. Now is the time to get a good outsourcing deal.

Where should I maintain/increase my IT spend?

That was the good news; IT expenditure can be reduced in many areas. It is just as important, though, that the senior management team understands the significance of IT to the business, protecting and developing the budget in business critical areas. Again, based on real-life projects, I believe the following should be high on the agenda:

- Ramp-up mandatory application software projects. Accelerate those on which the business depends, such as faster/more efficient processes; development of competitive and innovative products; internet sales channel; differentiating customer services. You will probably need these just to stand still in an ever more competitive marketplace.
- Invest in essential technologies to maintain competitiveness (such as SMS alerts), while replacing ailing hardware to improve reliability and reduce energy.
- Maintain your IT skills. Don't stop recruiting the best graduates; they are your future senior management. Take advantage of slack times to up-skill. After all, this is when a pool of real talent - people with valuable financial services expertise - is being laid off. Grab them while you can.

What should I expect from my CIO during this period?

Sure, CIOs are always pressing for bigger budgets. I should know; I did it for ten years. Well now is the time for the CIO to earn his/her stripes. Here's what I think a senior management team should expect from their CIO:

Partnership. The CIO should always act as a fully integrated member of the senior executive team; ensuring the IT portfolio and priorities fully align with those of the enterprise. The CIO and CFO should work in harmony, with a clear understanding of each other's considerations and an eye to the longer-term strategy.

IT prioritisation and governance process improvement. The CIO should be encouraging initiatives to drive out waste and risk from the IT internal processes and project management methods.

Leadership. Above all else, the CIO should lead by example; maintaining IT morale while proactively driving cost reductions that do not endanger IT and business capability, today or in the future.

What's the bottom line?

Simply rearranging IT expenditure - reducing in some areas while increasing in others – is hardly effective. A close eye has to be kept on total IT costs. The good news is that, in my experience, even the most efficient IT activity can probably reduce expenditure by around 10% without cutting into the muscle. For some companies, where this may not have been a way of life in the past (probably several of our Financial Services companies fall into this category) it is very likely that reductions of more than 25% are possible. The caveat is a need for sensible management and due consideration of the factors we have been discussing.

The key elements of success are: Be sensible; Be focused; Be mindful of the longer-term.

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