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Managing IT When Times Get Tough

Proactive CIOs Will Help Firms Amid Economic Uncertainties

This is the first document in the “Managing IT In Uncertain Economic Conditions” series.

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EXECUTIVE SUMMARY

Macroeconomic conditions, whether they are downturns or boom times, broadly shape the CIO’s job, but the firm’s own context drives action. The reality is that any business at any time may need to shift its executive focus toward running lean — whether due to possible recessions or just normal competitive pressures combined with investor expectations. The CIO must know how to maximize business value during these times as well as during periods of growth. The keys are to work in concert with the CFO as well as other executive team members, provide sufficient emphasis on improving the business’s overall cost profile, and ensure risks from cost deferrals are understood.

WHEN COST REDUCTION BECOMES THE PRIORITY, THE CIO MUST SHOW LEADERSHIP

Macroeconomic conditions — growth or recession — get the headlines, but the economic environment for any one firm is a function of its markets, suppliers, and value proposition. Even in a recession, there will be firms experiencing business line growth, and even in boom times, a firm may see sales wane or costing and pricing pressures squeeze profitability. When a firm’s executives start to see signs of impending lean business conditions:

- **The CFO is likely to be first to raise the flag . . .** He or she will lead the effort to replan for a period of tighter sales, longer selling cycles, or declining margins and look for ways to quickly affect the expense lines of the budget, such as deferring new capital investments, eliminating discretionary operating expenses, postponing hiring, and accelerating retirements. The CFO may pursue a strategy of looking for initiatives where the discretionary investment produces quicker, smaller paybacks.
- **. . . creating a sea change for IT.** Instead of driving investments to support growth or strategic positioning, the CIO has to shift IT gears toward helping the business reduce its costs, with IT expected to reduce its own costs at the same time. These are not fun times to be a CIO, but they do provide the opportunity for CIOs to help lead their firms’ adaptation to lean business conditions and increase their own stature as business leaders.

With Good Management, Adapting IT To Lean Times Is Easier

When IT is asked to adapt to lean business conditions, cutting expenses will be ugly if project portfolios aren’t based on a strong business-case discipline or if there is little understanding of IT expense drivers. It helps to already have the structures, processes, and tools of well-run IT in place (see Figure 1):



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- **Broad-based demand management.** With effective governance that goes beyond simple project funding approvals, CIOs are able to look at the entire demand picture — business and IT project spend as well as IT service demand.¹ And with good budget transparency, the purpose of spend, along with cost drivers and reduction levers, is clear to business and IT decision-makers.
- **Mature vendor management.** Visibility across all external suppliers helps focus attention on where the greatest improvements are possible.²
- **Business-outcome-oriented IT metrics.** IT performance management that is business-outcome-oriented helps business understand the connection between business activity, such as new customers captured or products shipped, and IT cost.
- **Strong CFO and business-unit-executive relationships.** With these relationships in place, the groundwork is prepared for the types of hard decisions that cost reductions entail.

Figure 1 IT Management Foundations

Demand management	<ul style="list-style-type: none"> • Established, well-functioning steering committee with business involvement • Strong value governance practices • IT costs aligned to business-visible services • Clarity around cost drivers and levers
Vendor management	<ul style="list-style-type: none"> • Established IT function with effective processes • Full vendor life-cycle management — from strategy to spending analysis • Covers hardware and software as well as services
Performance management	<ul style="list-style-type: none"> • Business-focused metrics, not internally focused • Linked to Balanced Scorecard • Regular executive review • Used as a basis for strategic initiative identification and monitoring
Executive relationships	<ul style="list-style-type: none"> • Strong CFO and business-unit-executive relationships • Regular participation in business reviews

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Source: Forrester Research, Inc.

CIOs Must Explain The Structure Of IT Spend

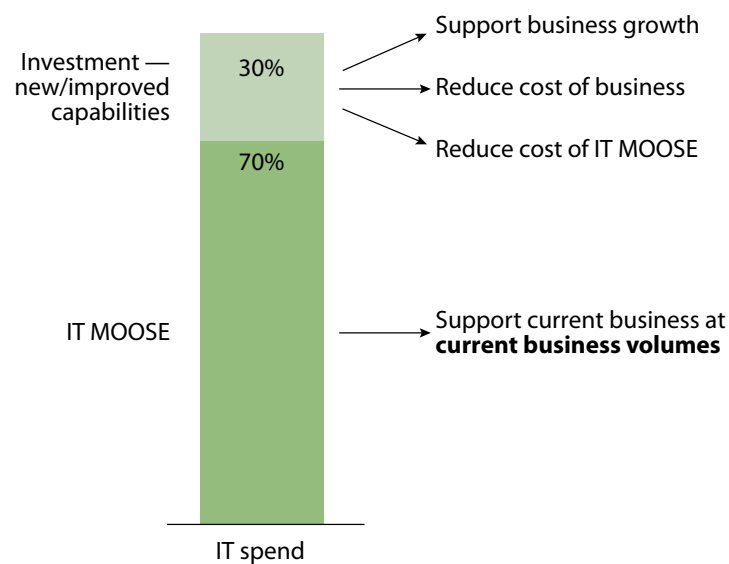
Executives often look at IT spend as a black box and compare it as a percent to overall revenue.³ They should be educated to understand the breakdown of this spend into its components of:

- **Nondiscretionary maintenance and operations (MOOSE).** The most important breakdown is the split between new investments and basic operating expenses, which are approximately 70% of IT budgets and which Forrester refers to as MOOSE (Maintenance, Operations, and Ongoing

support of Systems and Equipment).⁴ MOOSE covers all the IT expenses that would occur if the business continued but no changes were made. This year's MOOSE contains the ongoing operational expenses generated by last year's new investments.

- **Investment capacity.** The remaining 30% comprises investments to support business growth, to cut business cost, and to cut the cost of IT MOOSE (see Figure 2). This investment capacity is discretionary, and so business executive management can ramp it up or down or allocate it differently from year to year. But woe to the business that underfunds investments to support growth, reducing its own cost of operations as competitors with greater capacity or lower cost profiles charge ahead. And the consequence of not investing in MOOSE control is a continual increase in cost, eating away what investment capacity exists, resulting in dwindling reliability as systems age.

Figure 2 Different IT Spend Is Affected Differently



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Source: Forrester Research, Inc.

OPTIONS FOR IT SPEND REDUCTION COME WITH RISKS

Every well-run IT shop has minimal fat in its budget because performance measurement combined with good business-case discipline drives this fat out. When cuts are made, the CFO and business leaders must understand the impact and associated risks of not spending in an area. They also must understand that cutting the cost of business transactions by just 5% will in almost all firms have a greater bottom-line impact than killing all discretionary IT investments.

Different Risk Mitigation Tactics Are Needed For IT MOOSE Versus New Projects

MOOSE is the biggest cost, and spending deferrals have the lowest near-term business risk, but companies that have done a good job making investments in MOOSE control won't find much to cut (see Figure 3).⁵ New investments are a smaller portion of total IT spend, and as discretionary spending, they can be eliminated more easily but with greater business risks.

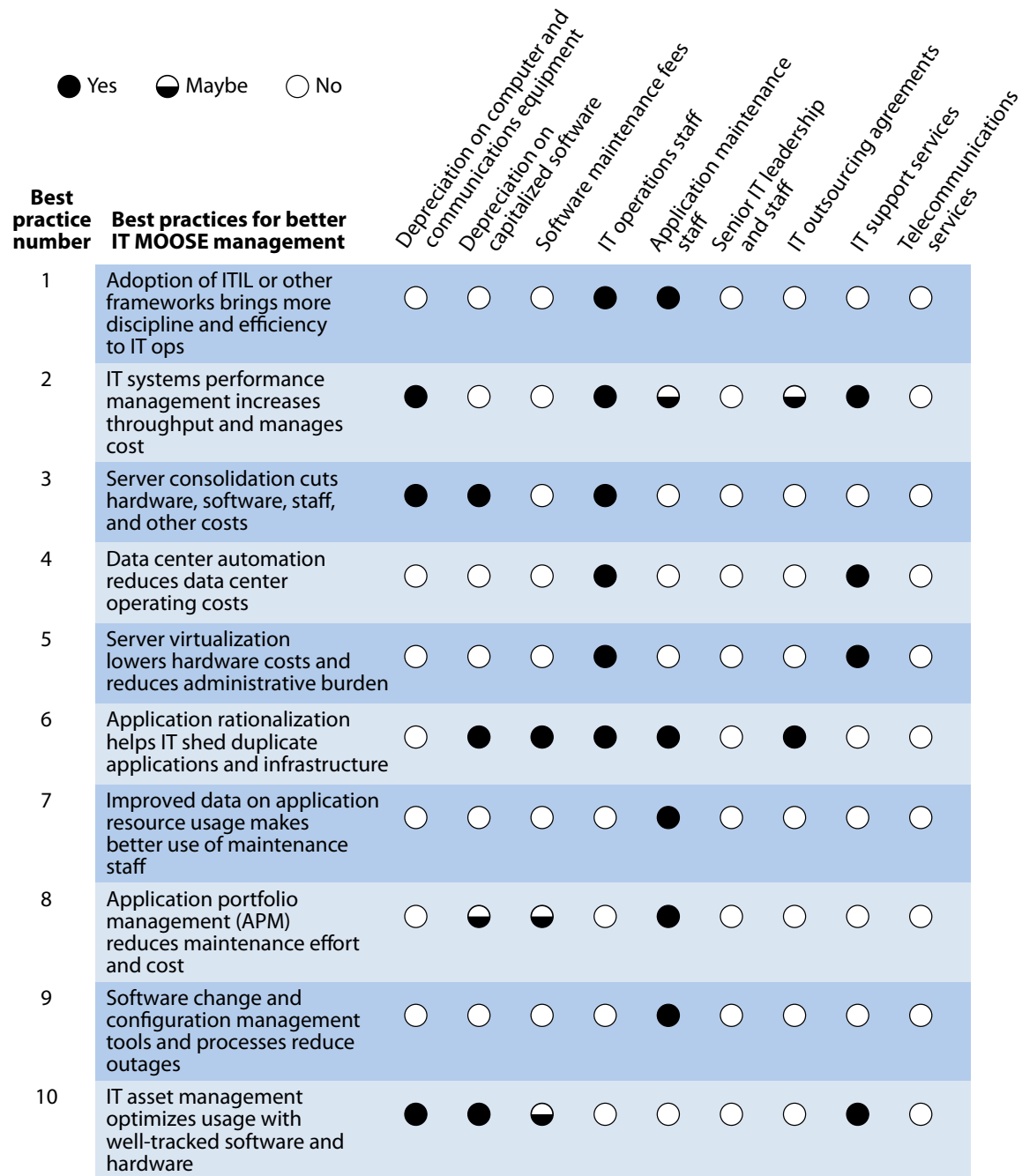
- **MOOSE risk mitigation.** With the CFO and business executives, CIOs should review options for IT-specific spending and communicate the risks of deferring infrastructure investments — for example, the risks to reliability of deferring server upgrades. Explore service-level tradeoffs, such as support response time increases, and consider service costs versus service-level tradeoffs. Look to see if contractors used for operational support can be cut back while still maintaining adequate coverage.
- **New investment risk mitigation.** With the CFO, CIOs should lead discussions around the IT project portfolio: understand “must-do” versus “nice-to-do.” Consider whether to increase the mix of projects for cost reduction versus revenue or customer satisfaction, and protect new investments that will lower business and IT costs. Beyond this, qualify the implications from deferring business initiatives: what will be the impact on competitive positioning, future product options, or sales force effectiveness, for example.⁶

Help The Business Lower Its Costs By Proposing Specifics

Today's business-engaged CIOs and their teams can be the first to detect possible tactics that will save the enterprise time and money — whether aided by technology or not. CIOs should:

- **Send staff out to look for quick wins.** For example, senior IT architects and analysts can lead the way by suggesting that multiple business units standardize on a proven single process, which would pave the way for labor savings or reduction in process overhead like software maintenance; proposing that they agree to lower paper/printing costs; or recommending that sales execs reduce travel by using existing Web and teleconferencing capabilities.
- **Sign up peers to sponsor business changes that lower costs.** CIOs know that business execs must lead any labor- or cost-saving initiatives in the business units. As IT staff identify the quick-win savings opportunities, they should pave the way with the execs and the CFO to make a recommendation a reality.
- **Recommend those discretionary initiatives that will deliver payback.** Perhaps the CIO and IT staff will identify those new investments that will deliver near-term savings — like the purchase of desktop video units for sales managers to confer with reps. IT staffers should quickly obtain prices and payback periods that can arm the CIO and CFO in cost-reduction discussions.

Figure 3 Cost Areas Affected By IT MOOSE Management Best Practices



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Source: Forrester Research, Inc.

Figure 3 Cost Areas Affected By IT MOOSE Management Best Practices (Cont.)

Best practice number	Best practices for better IT MOOSE management	Cost Areas									
		Depreciation on computer and communications equipment	Depreciation on capitalized software	Software maintenance fees	IT operations staff	Application maintenance staff	Senior IT leadership and staff	IT outsourcing agreements	IT support services	Telecommunications services	
11	Current generation service-desk tools keep IT support costs down	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
12	Enterprise architecture groups drive standardization of the software portfolio	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	
13	Vendor and contract management teams squeeze more value from vendors	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	
14	Contract life-cycle management helps optimize the savings from supplier contracts	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
15	Formal IT sourcing practices cut ongoing depreciation and maintenance fees	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	
16	eSourcing and services procurement tools help secure more competitive vendor bids	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
17	Recurring consideration of selective outsourcing may lower costs and improve IT	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	
18	Implementation of IT operations scorecards drives improvements and reduces costs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	
19	Give IT leaders dual roles as business relationship and IT activity managers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
20	Create an investment funding pool to pay for IT MOOSE management initiatives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	

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Source: Forrester Research, Inc.

RECOMMENDATIONS

ECONOMIC DOWNTURNS ARE AN OPPORTUNITY FOR CIO LEADERSHIP

It is tempting to look upon imminent downturns as wholly negative — but the skills and knowledge it takes for a firm to successfully ride an upturn are also ones in which IT should be well versed. CIOs must leverage their organization's understanding of business operational processes and how the systems support them to help CFOs and business execs find and implement the many incremental improvements possible in most business processes. CIOs can show their leadership acumen by:

- **Teaming with CFOs and business execs on operational improvements.** CFOs have anecdotally reported that it's hard for them to get business managers focused on operations efficiency, especially when times are flush. CIOs can be valuable partners to the CFO in leading programs to find, fund, and implement small process changes that shave percentages off a firm's costs.
- **Enabling CEO visibility to key operational metrics.** When times are tight, accurate and timely information on business performance and costs is highly valued. CIOs should tap their staffs for ways to accelerate delivery of this information.
- **Partnering with business leaders to prepare for the next upturn.** Lean economic times will be followed by upturns. Thinking strategically at this time can provide a window of opportunity for the firm to gain ground on competitors when conditions change. CIOs should spend time with these leaders to understand the competition's strengths and weaknesses and chart specific plans and investments to counter their strengths.

WHAT IT MEANS

SOME COST-CUTTING OPTIONS SHOULD BE EXAMINED WITH CAUTION

Just as important as understanding where expense cuts make sense is understanding where they should not be pursued without careful scrutiny — no matter how appealing they may seem to other business management. CIOs should be cautious about some apparently obvious cuts:

- **Time for R&D and innovation.** Eliminating the last vestiges of research into emerging technologies or pulling staff back from innovation experiment teams may seem sensible in bad times. But, as the last dot-com bust downturn demonstrated, the result can be an IT organization woefully unable to help the business when innovation again becomes a priority.
- **Architecture and strategy development.** An executive might be tempted to conclude that if fewer projects are underway, then fewer architects must be needed. But when project volume ramps up again, IT execs may find they lack the foundation to apply a strategic perspective to disjointed business project requests — adding to the complexity that drives future IT costs.

- **The “just outsource” syndrome.** Outsourcing is an area where CEOs and CFOs may see opportunities for quick savings, especially if asset transfers with lease-backs are part of the outsourcing value proposition. But this is feasible only for larger-scale, long-term outsourcing contracts — precisely the ones that firms are most dissatisfied with and have made great efforts to renegotiate or terminate. CEOs and CFOs must understand the risks of these contracts. Instead, CIOs may wish to accelerate narrower function-specific outsourcing, such as help desk or application management, especially if these allow IT to avoid expenses to keep these functions at the level the firm needs.

ENDNOTES

- ¹ Good IT governance ensures that organizations obtain the maximum business value from their IT investments. IT demand management is a critical IT governance process that extends beyond merely aggregating requests for IT resources and automating workflow. Best practices in IT demand management are: align the supply of IT resources to optimize business value; influence and modify end user behavior by providing meaningful information; and enable a more complete understanding of the costs and tradeoffs associated with the consumption of IT services and resources. See the June 15, 2006, “[How IT Must Shape And Manage Demand](#)” report.
- ² Vendor management no longer represents a contracting function in procurement; rather, firms have plans to create full supplier relationship life-cycle governance capabilities. Forrester has identified some key best practices for managing vendors; these include supplier tiering and supplier performance assessments. See the January 25, 2008, “[Building An Effective Vendor Management Office](#)” report.
- ³ Forrester annually provides IT spending benchmarks, including our recommended IT spending benchmark: spending to maintain and operate the IT organization, systems, and equipment (MOOSE) as a percentage of revenues. See the November 13, 2007, “[US IT Spending Benchmarks For 2007](#)” report.
- ⁴ Most CIOs properly focus on controlling and reducing the costs of maintaining and operating existing IT systems and operations — what Forrester calls the IT MOOSE. However, many are uncertain about what should count as MOOSE expenses. Our ongoing discussions with CIOs and a recent survey of 42 CIOs provide guidance on the general principles by which to define MOOSE, and the consensus of these CIOs on what they include in their definitions of MOOSE. See the October 18, 2005, “[Defining The MOOSE In The IT Room](#)” report.
- ⁵ Forrester has developed a checklist of 20 best practices to enable CIOs to score themselves on their ability to control their IT MOOSE costs. See the September 20, 2007, “[IT MOOSE Management — 20 Best Practices](#)” report.
- ⁶ Business cases are following their own “maturity model” as they move from filling the need for obtaining funds for a standalone initiative to being a driver for project planning, serving as the tool for prioritization of competing investments, and becoming an enabler of long-term project benefits realization. As the sophistication of the business case increases, the content must keep up. Business cases now must speak to alignment, benefits realization, and risk, as well as mere project economics. See the July 18, 2007, “[The Components Of A Quality Business Case](#)” report.

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