

Innovation and Transformation Through Radical Cost Cutting

Mark Raskino

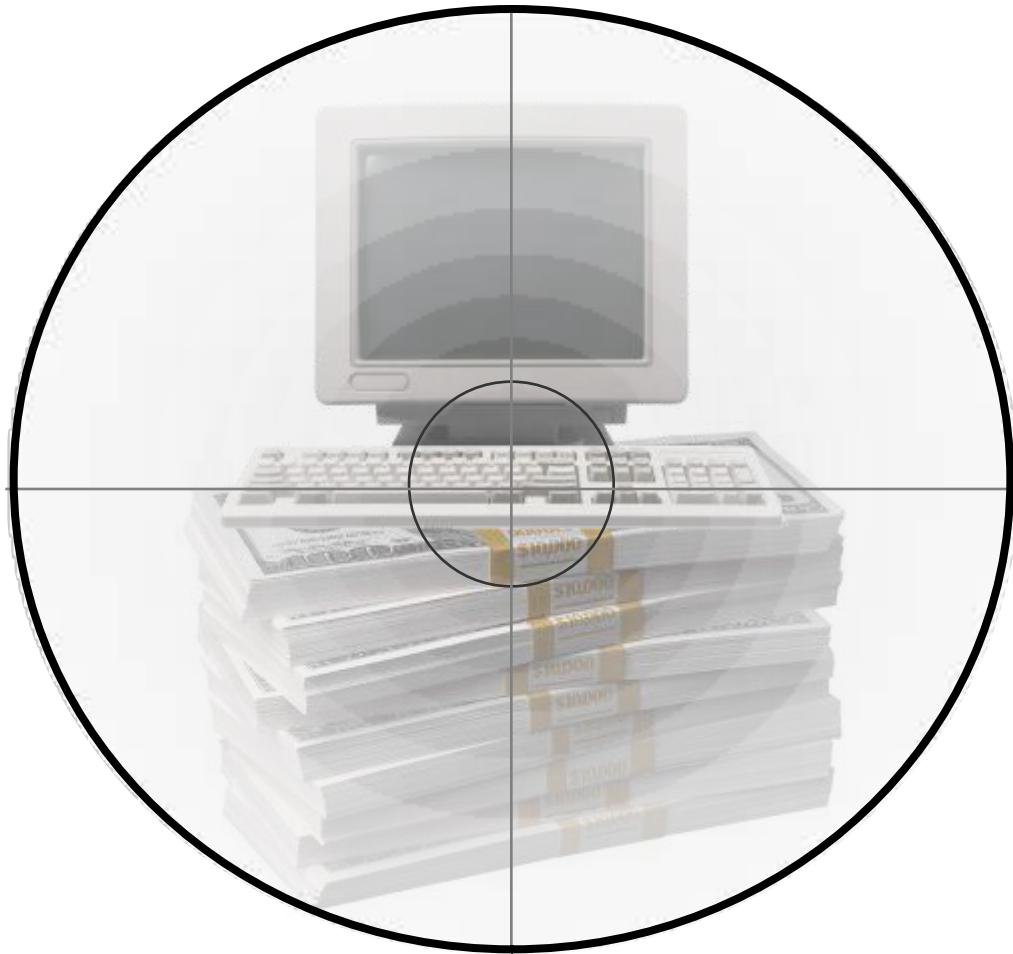
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SYMPOSIUM ITXPO[®] 2008



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But note *some* CEOs, Hunting Harder for Profits, Are Setting Their Sights on IT Costs



FINANCIAL TIMES

18 April 2008

"It is clearly feasible for us to take 10, 15, 20 percent off our cost base, especially in information technology and operations ..."

Vikram Pandit said that one of his key priorities would be reducing Citigroup's IT budget, which runs into the tens of billions of dollars. Citigroup's sprawling IT operation has 23,000 developers, on par with many large technology companies, and it is highly decentralized. This structure led to duplication of functions and an increase in expenses.

Citibank Is Not Alone



From 4% to 2%

A Major North
American
Financial
Services Firm

From 13% to 6.9%

A Major
Retailer

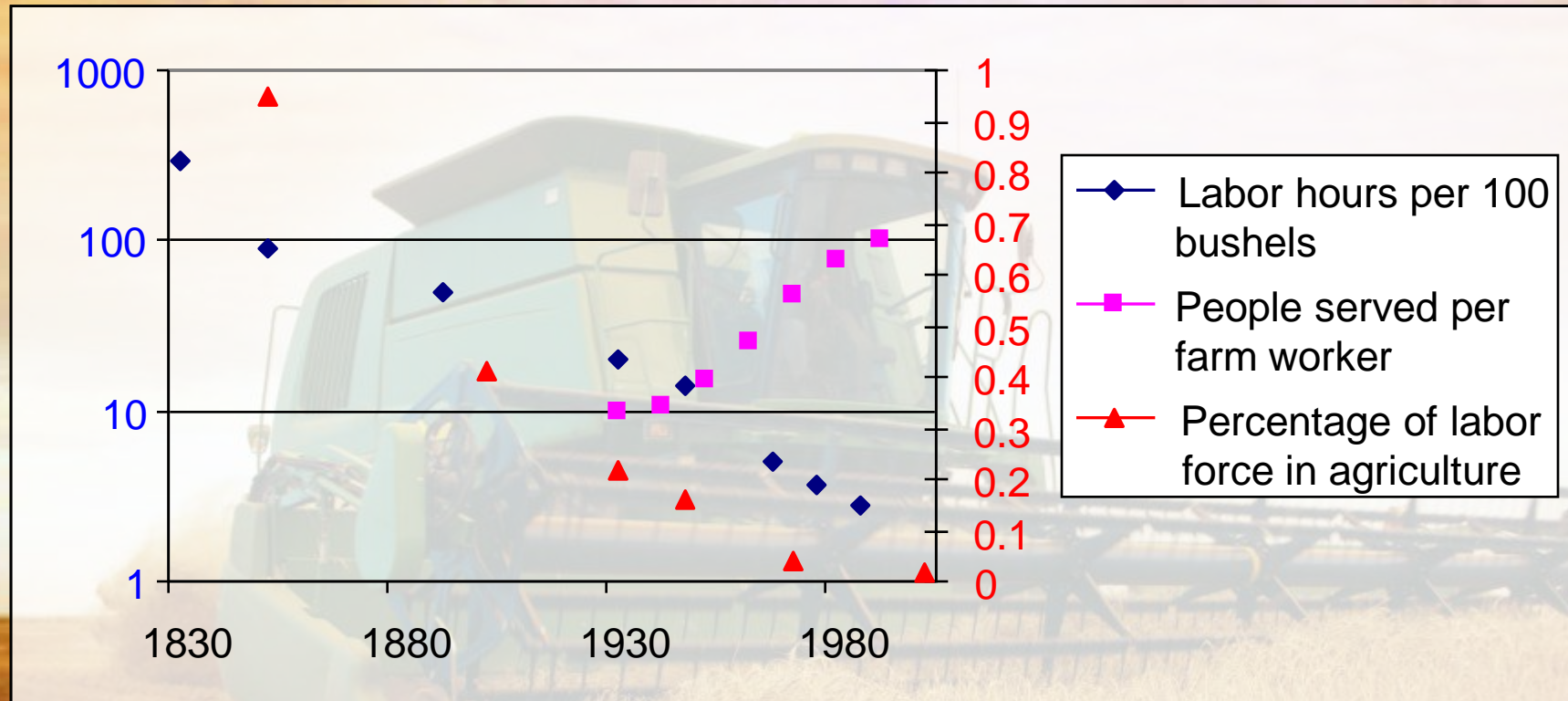
From 3% to 1.8%

Ratio of Total IT Expense to Total Corporate Revenue

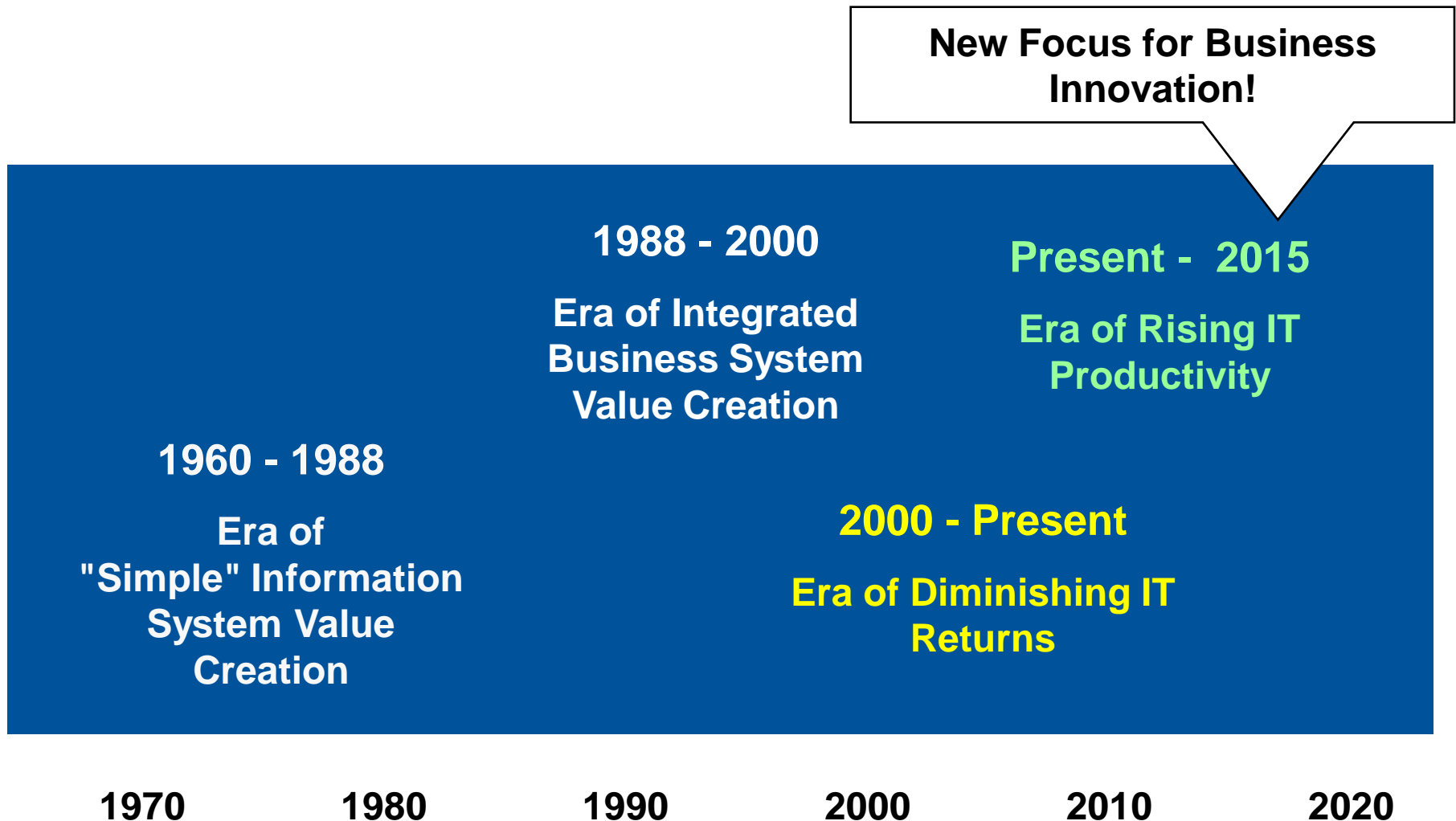
Key Issues

- What does the move to leaner IT mean for the IT industry?
- How can a business get more IT with less investment?
- What does IT do about the emphasis on more for less?

Industry Transformation: What Happens in a Period of Rising Productivity?

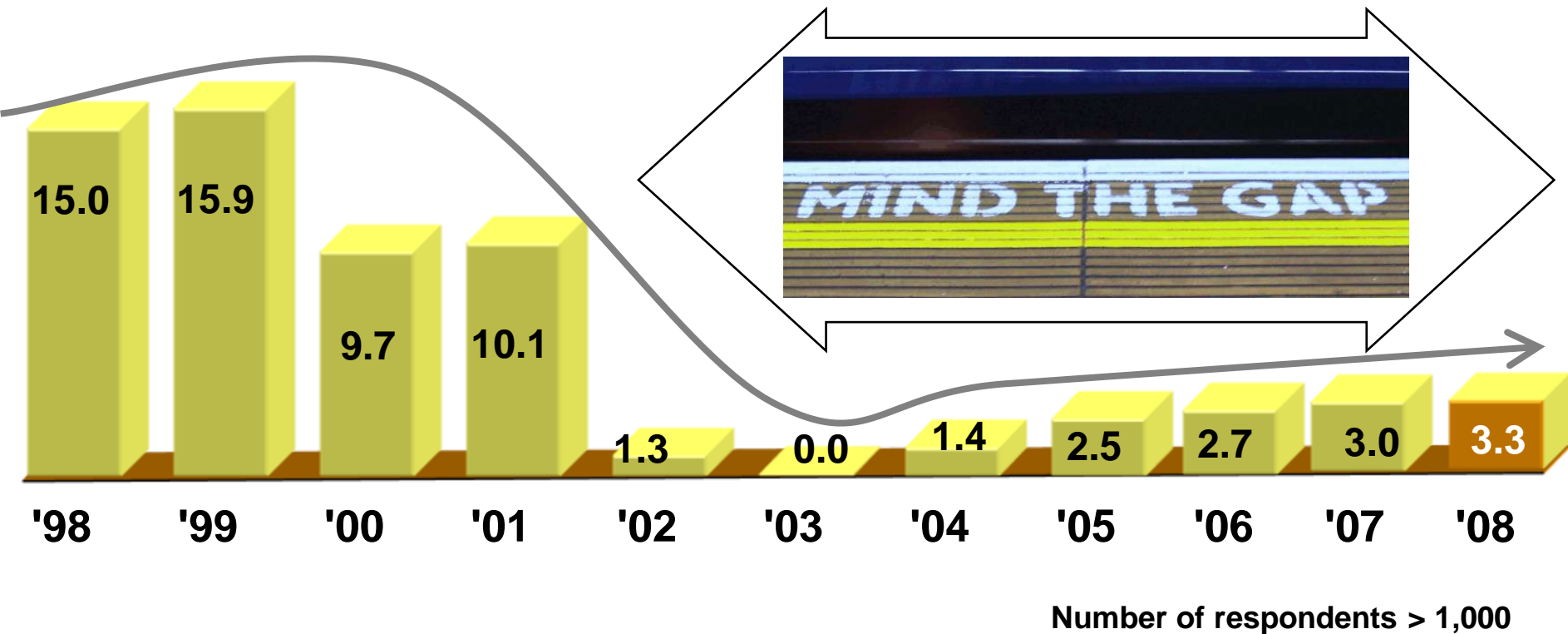


Nearly a Half Century of Rising Business Productivity and Innovation Backed by Information Systems



Business Investment in IT Has Lacked Real Conviction in Recent Years, Despite Strong Economic Growth

Worldwide average IT budget increases reported by CIOs (at the start of the year):



CEO Demand on IT Agenda — *Radical Option: Slash IT Costs ... as a Business Strategy Option?*

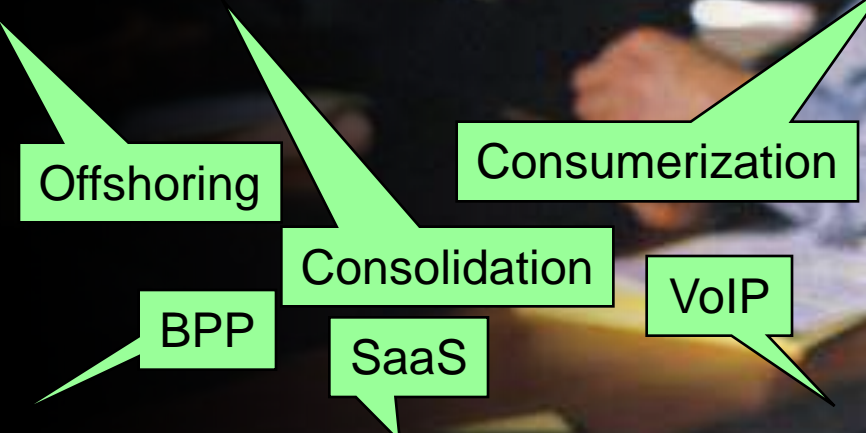
Revenue:	100
Cost of Goods Sold:	(50)
Cost of Sales:	(20)
General and Admin.:	
IT:	(8)
Other:	(7)
Gross Profit:	15

Cut this 50% over two years!

Grow this 27% over two years!

If tech. performance doubles every two years, why not ...

Did I mention I also want 25% more service?



Years	1 & 2	3 & 4	5 & 6	7 & 8
RTE	10	15	20	30

Case Example: HP

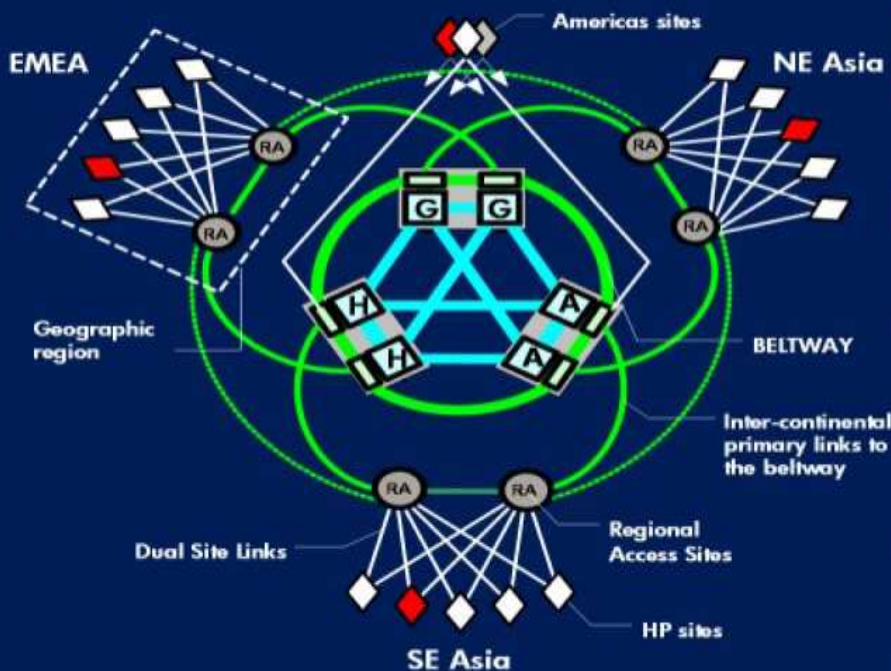
Top five IT initiatives

Portfolio management	<ul style="list-style-type: none">• 1,200+ → ~500 active projects• Global standards & metrics• IT ROI (our revenue)• 3,500 → 5,000+ → ~1,500 applications
IT workforce effectiveness	<ul style="list-style-type: none">• 100+ → ~29 core sites• <50% development → 80% development, 20% support• Optimize headcount• ~50% HP employees → >90% HP employees
World-class IT	<ul style="list-style-type: none">• Best-in-class operational efficiency• Benchmark cost structure• Showcase for the enterprise customer
Enterprise data warehouse (EDW)	<ul style="list-style-type: none">• 762+ datamarts → 1 enterprise data warehouse
Global data centers (DCs)	<ul style="list-style-type: none">• 85+ → 6 DCs, ~400,000 sq. ft.• Next generation data center model• 1 global network

Case Example: HP

Data center consolidation

Global data centers – next generation data centers (NGDC)



Less	More
60% retirement of legacy applications	Global applications
30% fewer servers	80% more processing power
Decrease in cost of storage	Double the storage <i>(all data replicated)</i>
Half the cost of networking	30% more bandwidth
Less HP IT cost	More capability

M&A Slowdown Supports Radical Cost Opportunity No. 1 ...

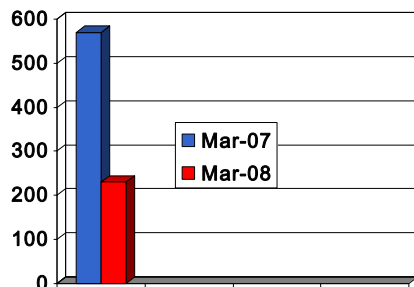
- Shared services
- Standardized business processes
- Server consolidation
- App consolidation
- Instance consolidation
- Website consolidation
- Content consolidation

... *consolidation*

CEO

CIO

World-wide M&A Deal Volumes



Source: WSJ.com, 31 March 2008

The IT Industry Is Busy Constructing Radical Cost Opportunity No. 2 ...

"A style of computing where massively scalable IT-enabled capabilities are provided 'as a service' to multiple customers, using Internet technologies."



cloud

IBM

IBM Opens Africa's First "Cloud Computing" Center in Jo'burg



CNN Money.com 24 Jun 08

HP

Microsoft

Amazon.com Development Centre in Cape Town seeks engineers to build Elastic Compute Cloud (EC2).



Za.amazon.com Jul 2008

Google

Sun Microsystems

Oracle



Source: Sun Microsystems



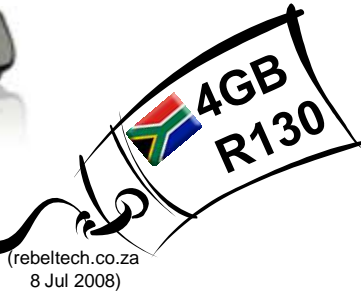
Source: Microsoft Channel 10

"Cheap, utility-supplied computing will ultimately change society as profoundly as cheap electricity did." Nicholas Carr

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Consumerization and Semiconductor Progress Lead to Radical Cost Opportunity No. 3 ...

... "disposable"



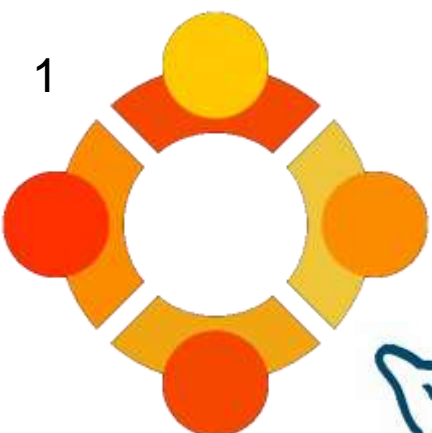
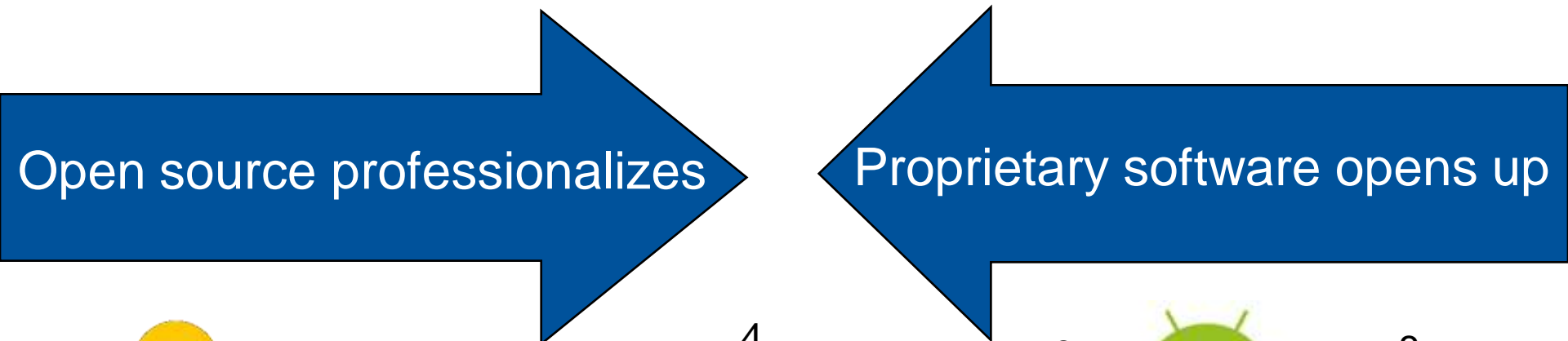
(www.dabs.com
8 Jul 2008)

CAGR 2007-2012

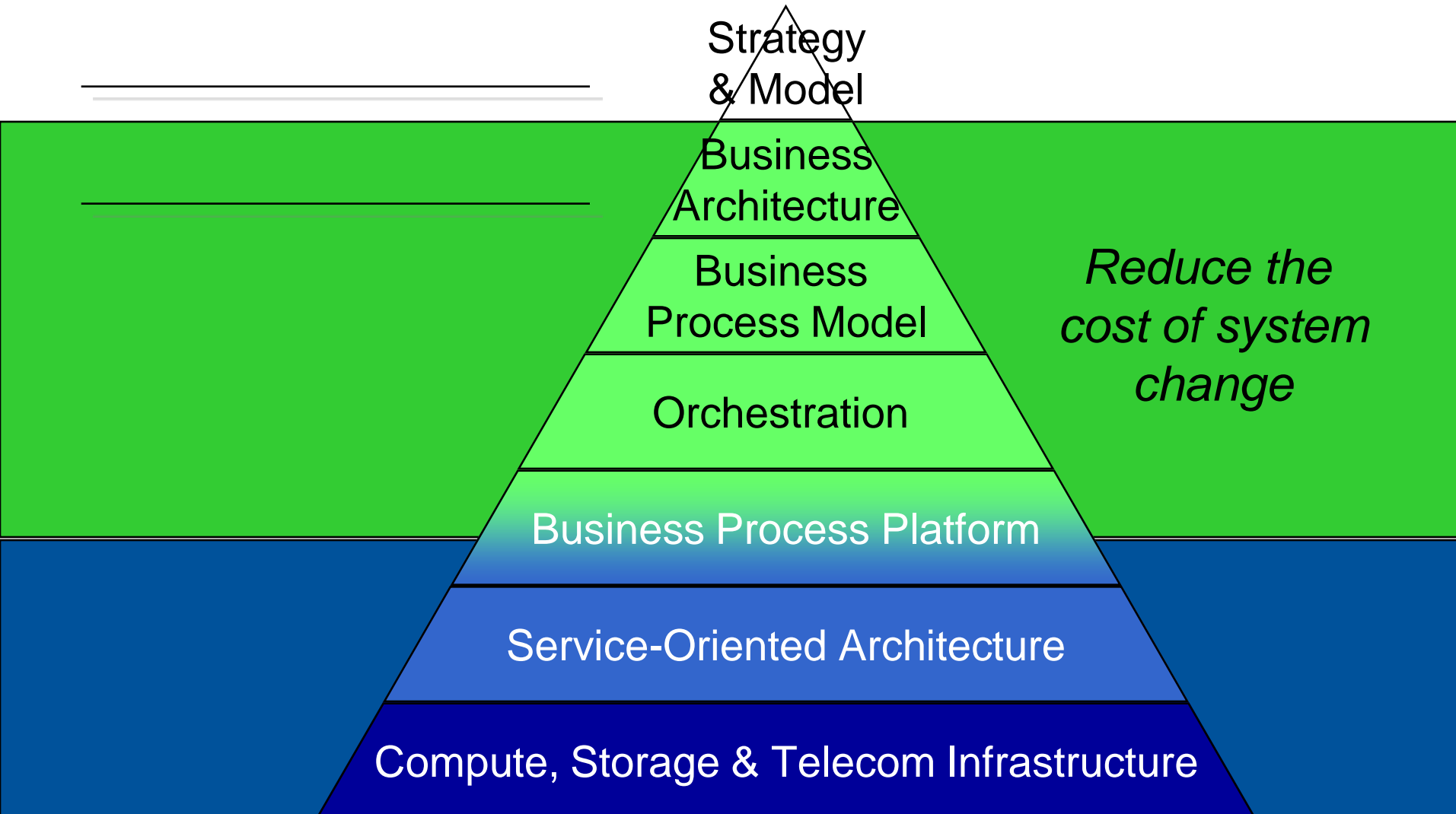
DRAM	-32.79%
SRAM	-10.76%
PSRAM	-23.83%
NAND Flash	-48.09%
NOR Flash	-22.97%

Consumerization and Semiconductor Progress Lead to Radical Cost Opportunity No. 4 ...

... **"OPEN"**

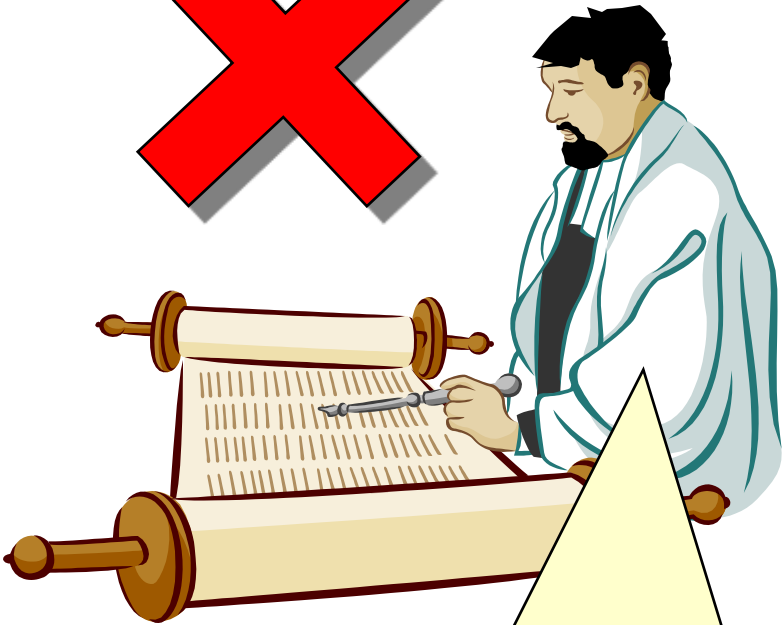
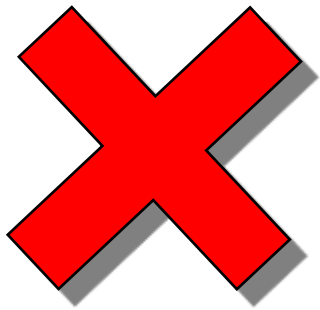


Enterprise IT Modernization Offers Radical Cost Opportunity No. 5 ...



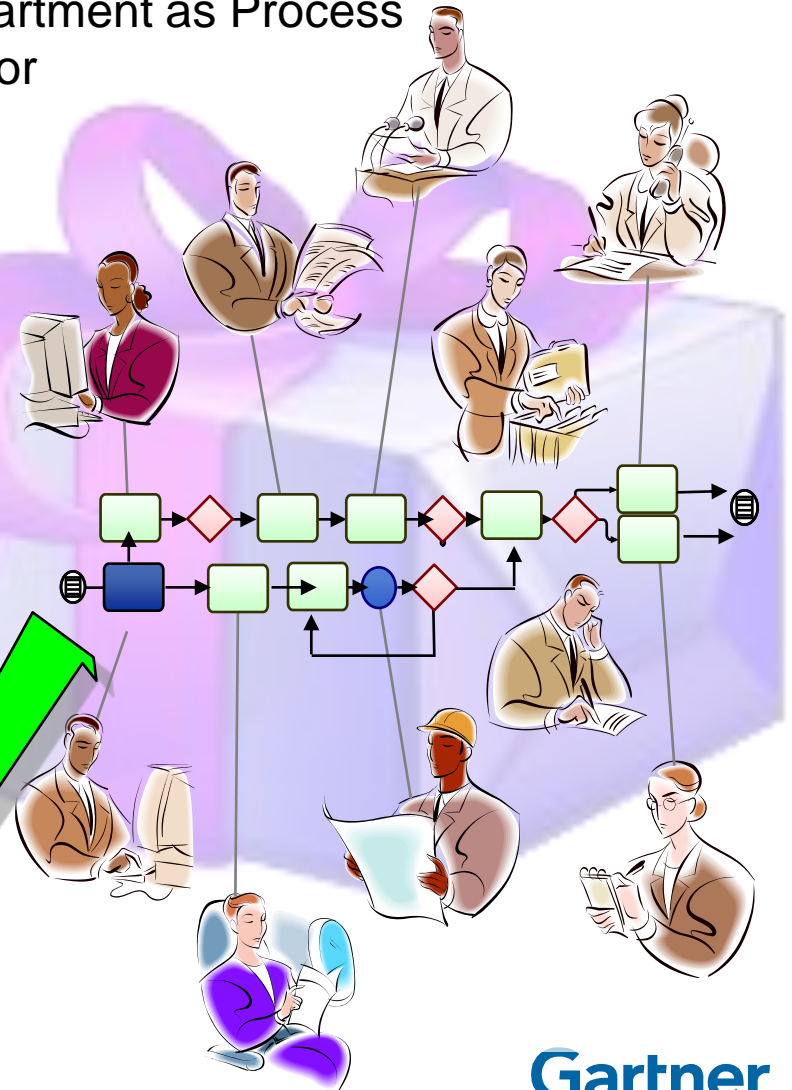
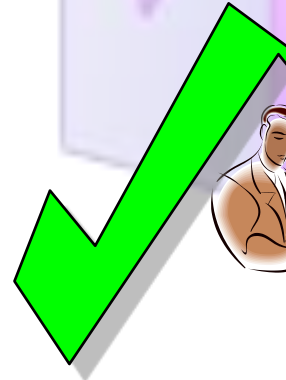
Explicit, Flexible Process Becomes Possible

IT Department as Software
"Change Request" Gatekeeper



"Your re-pricing procedure change is deeply embedded. It's 129th on the priority list — should be done by December 2009."

IT Department as Process
Liberator



Internet Penetration and Maturity Lead to Radical Cost Opportunity No. 6 ...

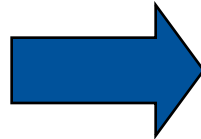
Globalization



- Niche needs of dispersed IT customers = addressable markets
 - Economies of scale reduce unit costs
 - Follow-the-sun progress rates enabled
 - And, yes, labor arbitrage still has an impact

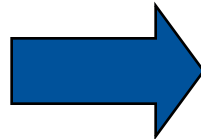
Objections and Responses

- We need to spend more money on IT, not less



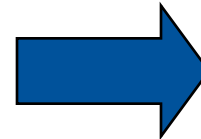
- IT expense cannot grow indefinitely — true innovation benefits from *constraints*

- Business leaders won't make the difficult choices



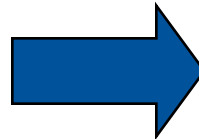
- New generation (Gen X) business leaders, get it

- We spend so much on operating today's IT that there is no money for upgrading



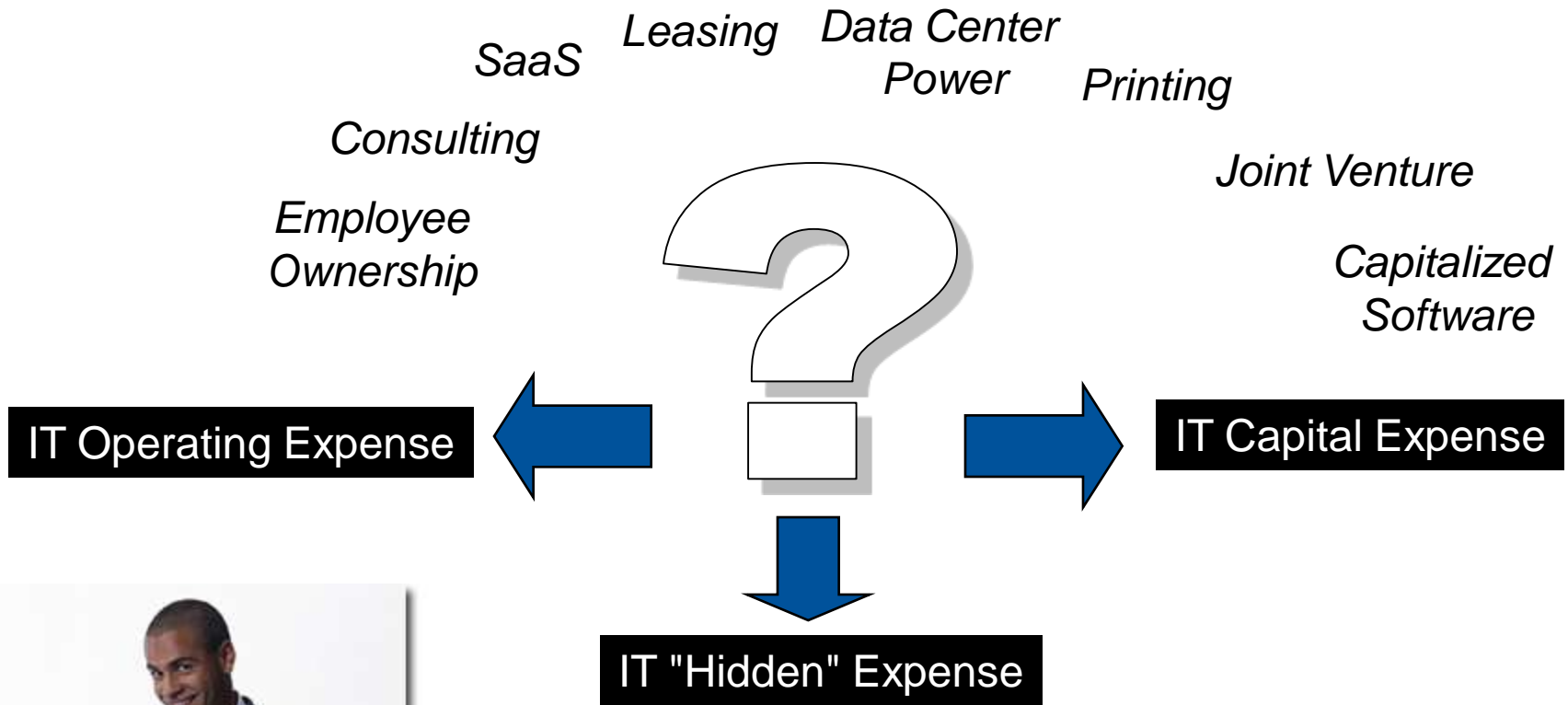
- IT *leaders* should manage demand; have you made a case for a **one-time** capital injection?

- IT productivity is not the most important problem — helping the business is



- Business productivity *requires* IT progress (but that progress is currently stifled by complexity)

Caution: Before Setting Out to Reshape IT Costs, Decide Whether You Are Game-Changing or Just Gaming

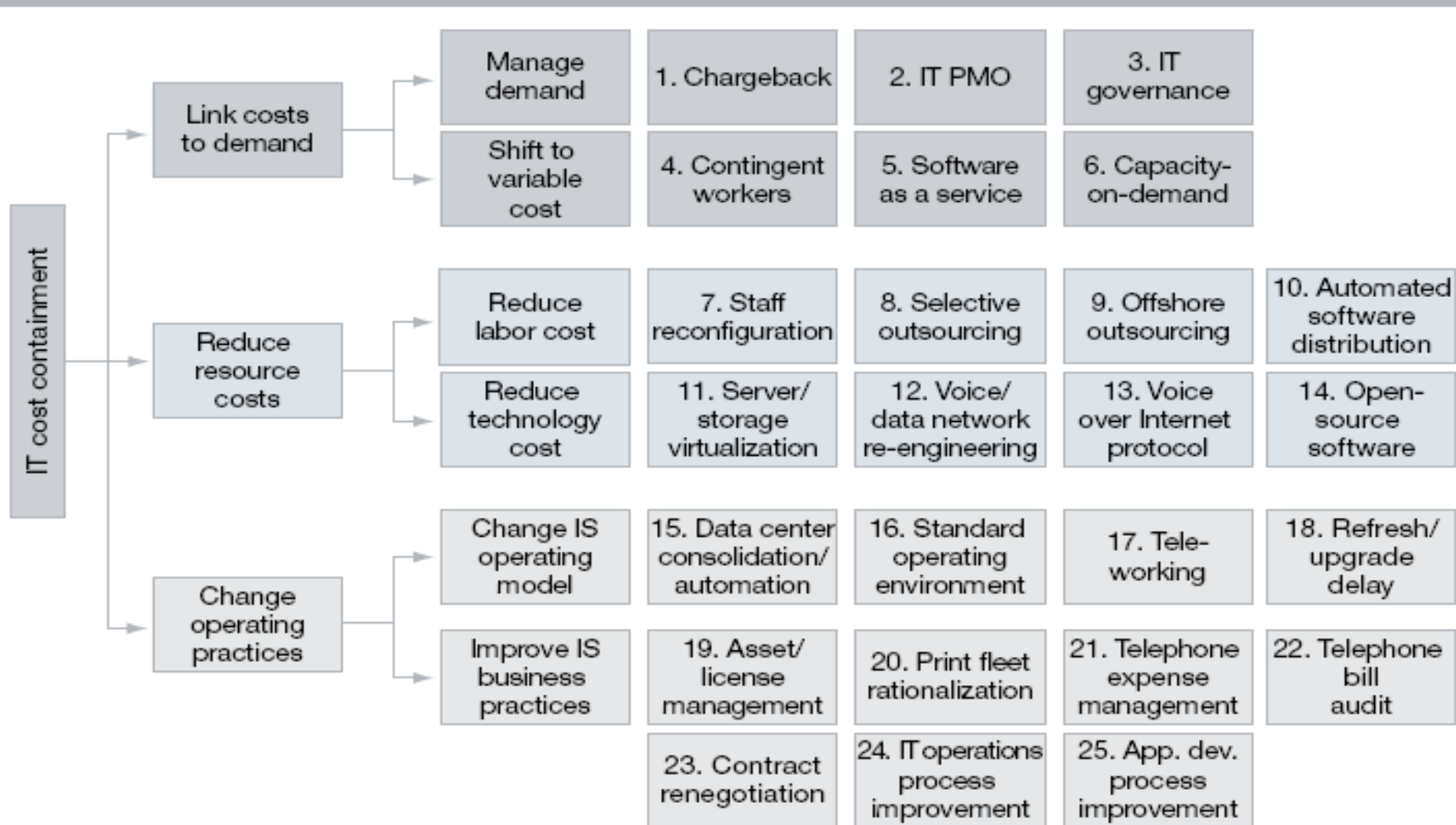


Empower a professional finance "scorekeeper"



Twenty Five Common Cost Containment Techniques

Twenty-five common IT cost containment techniques framework



Gartner is Unrivaled In Our Ability to Help You Reduce IT Cost Today

1

Identify major cost savings opportunities

Identify opportunities

- Key Metrics data compares spend v. peer group

Actionable recommendations

Detailed Benchmarking tailored insight, recommendations

Advice and best practices at every step

-Analysts provide best practice advice and market pricing.

2

Get the **BEST pricing** and terms this quarter

Identify opportunity

- Evaluate current state and provide recommendations to avoid reduce cost, risk

Achieve Best Pricing & Terms

- Contract review with expert analysts

Support in negotiating the best deal

- Specialist support (CFC)

3

Implement Cost Saving Technologies

Identify opportunities

- Best Practice advice and recommendations e.g. sourcing decisions, Datacenter consolidation

Assess potential

- Productivity tools & best practices e.g. server virtualization

Technology/vendor selection

Tools and advice to make the right decision e.g. open source, SAAS, SOA

4

Implement Cost Saving Process Improvement

Identify Opportunities

Understand industry best practices, using research and productivity tools

Optimize Process / operating model

IS Process Improvement and demand management best practices and tools

Fine tuning and continuous improvement

Advice and best practices e.g. chargeback, IT Services Portfolio

Research Clients Should Visit the Gartner IT Budget Optimization Web Page

IT Budget Optimization

Balancing Cost, Growth and Risk

Obtaining maximum business value from IT spending is an ongoing imperative. But with a potential business downturn on the horizon, the next most important business value action will be to cut IT costs.

RESEARCH

 **Cost Cutting in IT**
6 February 2008

Obtaining maximum business value from IT spending will always be an ongoing client imperative. But with a potential business downturn ahead for many clients, the next most important business value action to take will be to cut IT costs.

- Cost Cutting for Midsize Businesses Through Reduced Network Spending
- Cost Cutting Needs Quick Prioritization of Viable Options
- Cost Cutting in IT to Cope With Economic Slowdown
- Cost Cutting for Banks to Derive Value From Multichannel Integration With a Shrinking IT Budget
- Cost Cutting in Production Print and Mail Operations
- Cost Cutting Within the Billing Process Is Achievable for Health Insurers
- Cost Cutting Requires Corporate Performance Management

VIDEO: ANALYST INTERVIEW



Ken McGee
VP & Gartner Fellow

00:00 00:00

Cost Cutting Techniques for 2008
Ken McGee, VP and Gartner Fellow and Tina Nunno, Managing Vice President

PODCASTS: ANALYST INSIGHTS

 **Cutting Costs without Compromising Security**
Guest: Mark Nicolett, VP Distinguished

<http://www.gartner.com/it/themes/optimize/optimize.jsp>

Your Next Steps

CIOs should prepare their plans assuming that, by 2012, the business will require them to deliver twice the value they do today.

- **Today (Monday Morning):**

- Compare the gross margins of your three biggest technology and service providers, to your own.
- Decide whether offerings from those providers are currently delivering *material* innovation to your business.
- Calculate what a 20% cut in total IT cost would do for the bottom line.

- **Near Future (The Next 12 Months):**

- Study the cases emerging from companies that are successfully reducing their IT spending and getting more services as a result.

- **Longer Term (Five Years):**

- Challenge your organization to take an integrative view of the business to improve the velocity of strategic change. This includes migrating to a "business process platform" architecture.

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