Webinar
3 Steps to Balance IT Costs and
Digital Business Enablement

October 2020

Nice to meet you and warm welcome to today's webinar

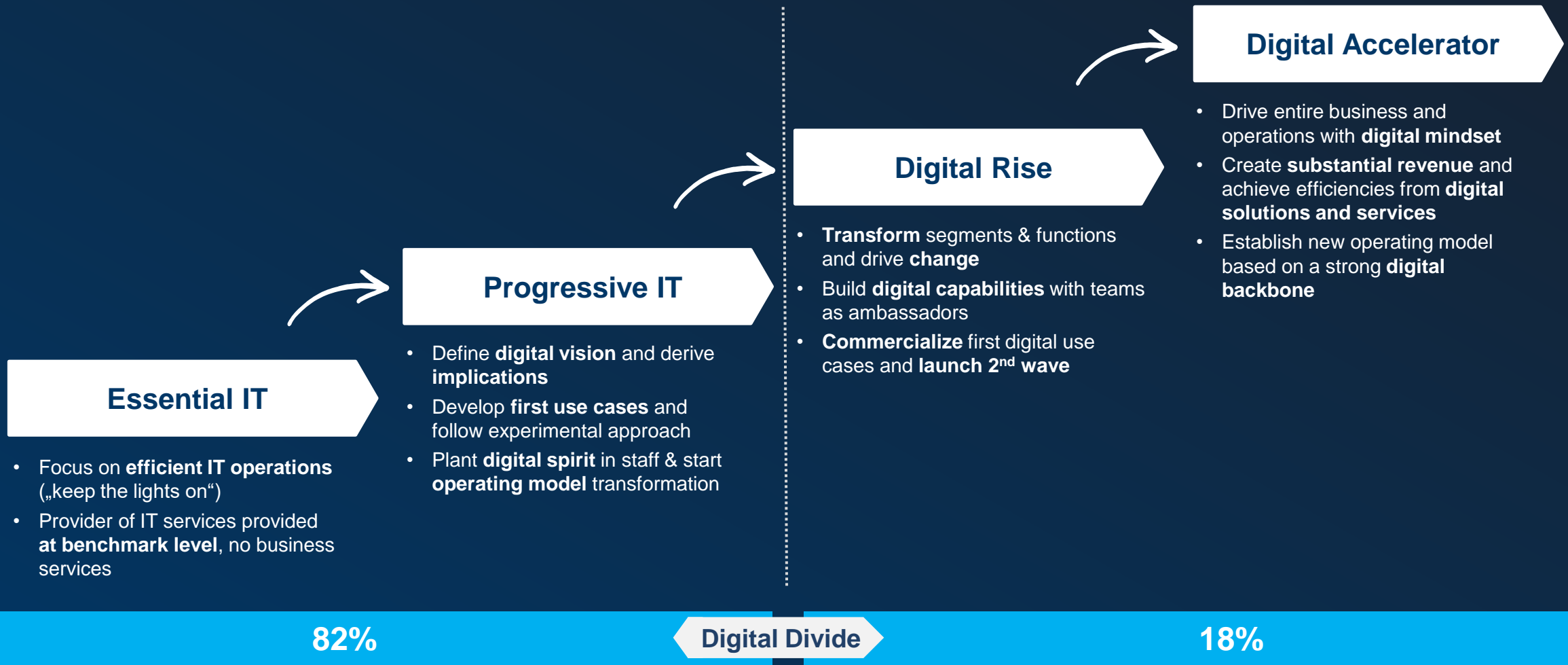**Maurice Resan**
Managing Partner | Germany

Speaker

Mert Gönensay
Principal

Moderation

Although the digital divide is growing – COVID-19 confronts IT managers across industries and digital maturity level with the same challenge

Digital Accelerator

- Drive entire business and operations with **digital mindset**
- Create **substantial revenue** and achieve efficiencies from **digital solutions and services**
- Establish new operating model based on a strong **digital backbone**

Digital Rise

- **Transform** segments & functions and drive **change**
- Build **digital capabilities** with teams as ambassadors
- **Commercialize** first digital use cases and **launch 2nd wave**

Progressive IT

- Define **digital vision** and derive **implications**
- Develop **first use cases** and follow experimental approach
- Plant **digital spirit** in staff & start **operating model** transformation

Essential IT

- Focus on **efficient IT operations** („keep the lights on")
- Provider of IT services provided **at benchmark level**, no business services

82%	Digital Divide	18%

There is an increasing pressure on IT budgets…

- The past years were **characterized by big budgets for digitalization** efforts

- Not only, but also **driven by COVID-19**, company **liquidity** became a **top priority** for companies

- As a result, we feel the pressure that the management expects a **justification and especially transparency for IT costs again**

Pull for operational efficiency

Push for digital enablement

… while demand for business enablement is increasing

- Significant number of companies still **do not master the basics of IT**: IT demand management, harmonized architecture, etc.

- The business runs on **legacy systems and architectures**, that cannot handle value-adding digital use cases

- The operating model as well as organizational structures are **not agile enough** to respond to new digital business requirements and use cases

Need to balance these "conflicting" forces

As a result we see some common implications and guiding questions for IT managers

Which IT costs are "non-essential"? How can I release some funds to **secure short-term liquidity**?

What should my **technology roadmap** look like? Which former "nice-to-haves" have now become "must-haves"?

Which **digital use-cases** should I plan on implementing in my industry? How can I ensure funds for this
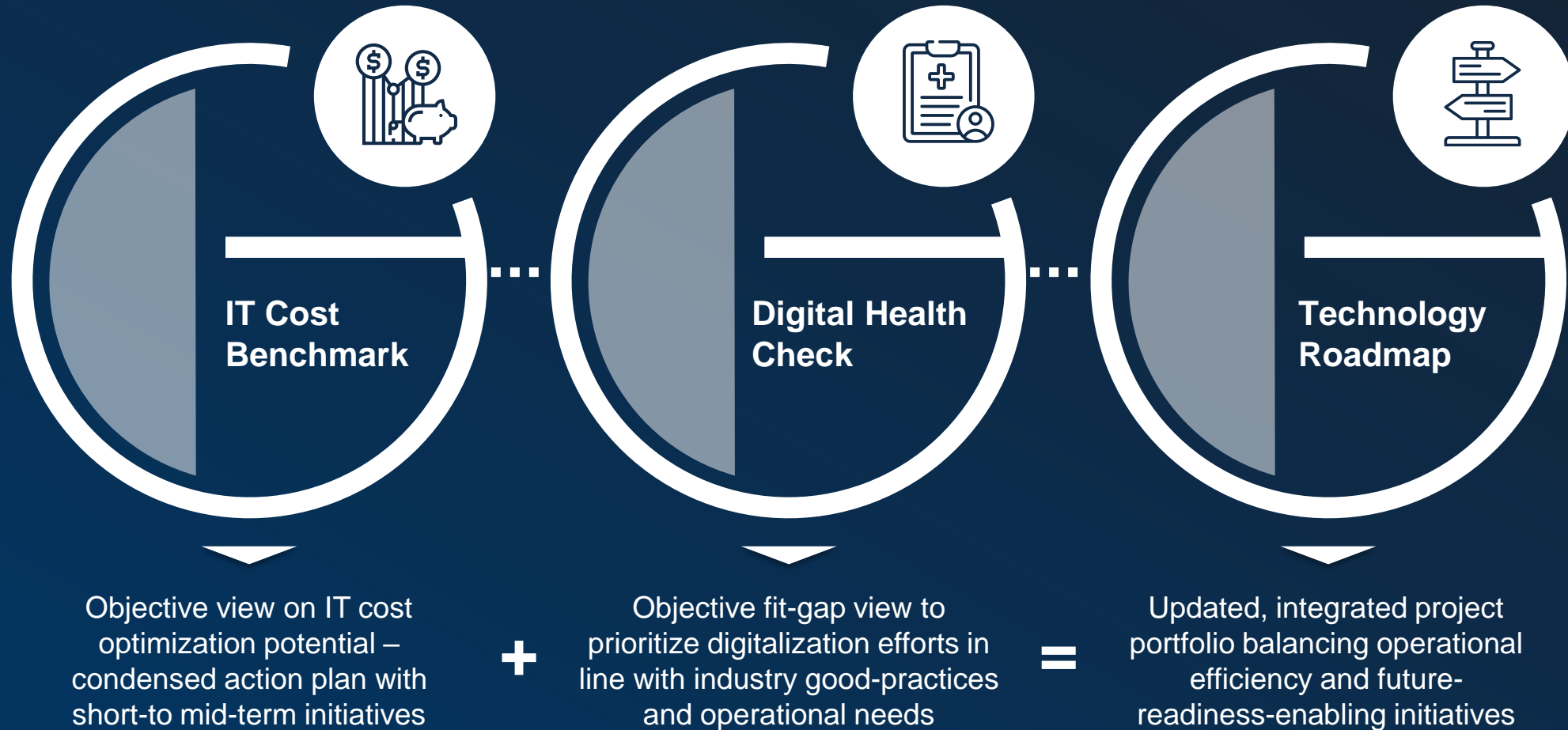
Which functions in my IT organizaton are **too expensive** as compared to my peers and which functions are **under-invested**?

How can I recalibrate my **project portfolio**? Which criteria parameters are the right ones? Am I still aligned with the **corporate strategy**?
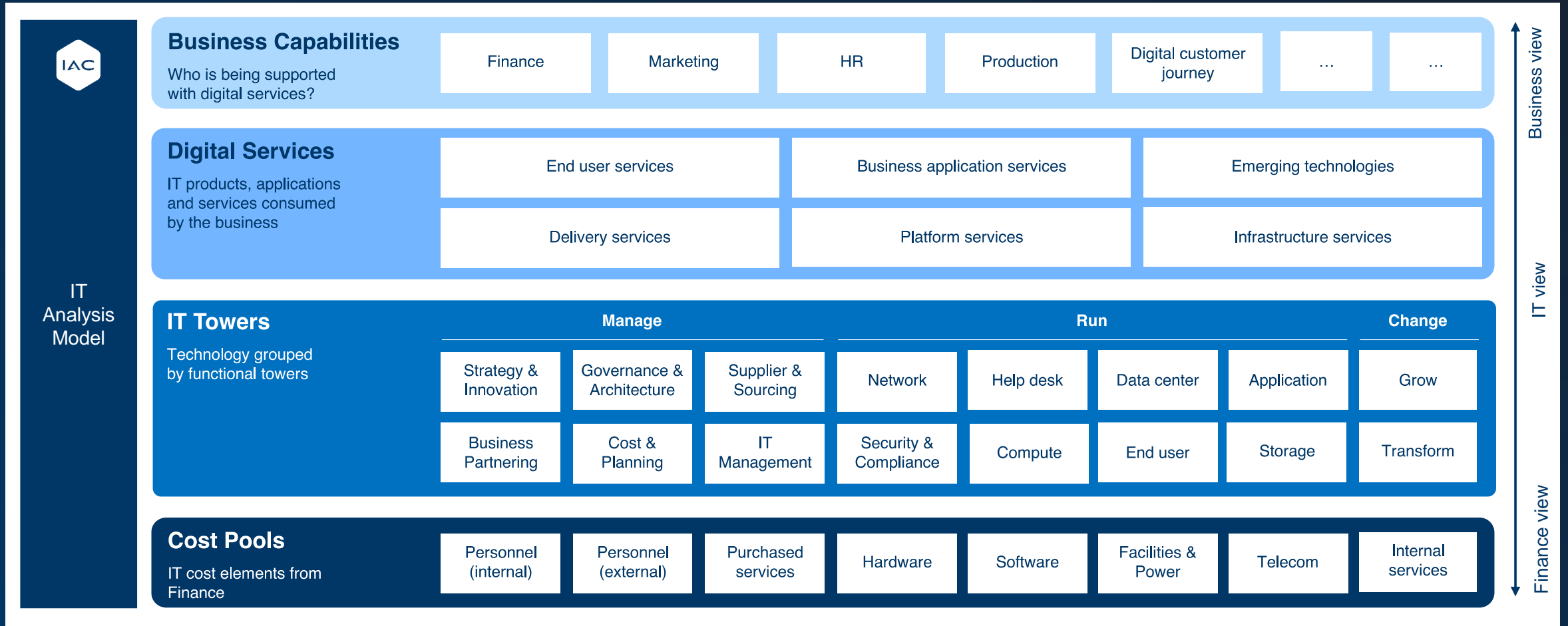
Is my internal IT organization ready to provide valuable digital use-cases to the business? **Where do I need to clean up?**

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With IT costs back on their strategic agendas - companies now apply an **integrated approach** on **optimizing traditional IT** and **new digital enablers** with a clear ROI

Baseline & Strategic Frame

IT Cost Benchmark

Digital Health Check

Technology Roadmap

Objective view on IT cost optimization potential – condensed action plan with short-to mid-term initiatives

+

Objective fit-gap view to prioritize digitalization efforts in line with industry good-practices and operational needs

=

Updated, integrated project portfolio balancing operational efficiency and future-readiness-enabling initiatives

The IT Analysis Model is our methodological basis for scoping and analysis

IT Analysis Model

Business Capabilities
Who is being supported with digital services?

| Finance | Marketing | HR | Production | Digital customer journey | … | … |

Digital Services
IT products, applications and services consumed by the business

End user services	Business application services	Emerging technologies
Delivery services	Platform services	Infrastructure services

IT Towers
Technology grouped by functional towers

Manage			Run				Change
Strategy & Innovation	Governance & Architecture	Supplier & Sourcing	Network	Help desk	Data center	Application	Grow
Business Partnering	Cost & Planning	IT Management	Security & Compliance	Compute	End user	Storage	Transform

Cost Pools
IT cost elements from Finance

| Personnel (internal) | Personnel (external) | Purchased services | Hardware | Software | Facilities & Power | Telecom | Internal services |

Business view

IT view

Finance view

Combining qualitative and quantitative data, the model enables a scalable SPOT-view on IT optimization potential – holistically covering effects on IT efficiency and business enablement

Internal Data

SAP   ORACLE   Microsoft

External Benchmarks

Gartner

FORRESTER

IAC Benchmark Database

IT Analysis Model

IT Analysis Model

Business Capabilities — Who is being supported with digital services?	Finance	Marketing	HR	Production	Digital customer journey	...	...

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IT Towers — Technology grouped by functional towers

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	Strategy & Innovation	Governance & Architecture	Supplier & Sourcing	Network	Help desk	Data center	Application	Grow
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Cost Pools — IT cost elements from Finance

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Business view / IT view / Finance view

- Consolidated data from various sources
- Single point of truth („SPOT")
- Harmonized terminology & data model
- Advanced analytics ("Slice-and-dice")

Qualitative interviews for analysis

CEO

CIO

IT Divison Lead

Business Unit Lead

Reference Case Studies:
Introduction

Case A

Industry	EOM Automobile
Revenue	1.200 mEUR in 2018
Sponsor	CIO
Project duration	3 months
Our effort	1,5 FTE
Background	The business has been successfully growing year over year. With Corona pushing the need for a remote working culture and infrastructure the IT has been struggling to adequately support the business.

Case B

Industry	Industrial Manufacturing (Metals)
Revenue	710 mEUR in 2019
Sponsor	CFO
Project duration	3 months (ongoing)
Our effort	2 FTE
Background	The CFO set a target to reduce IT costs by 10% within the next 2 years. We were approached by the CIO to optimize the IT costs. Our analysis results surprised both leaders and made them rethink.

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Starting point: A cross-functional management workshop sets a common baseline and strategic frame for the target IT set-up and corresponding KPIs

Strategic Cornerstones

Business Supporter

IT Provider	**Role of IT**		Business Enabler
Cost-oriented	**Value of IT**		Service- and Quality-oriented
Technology-oriented	**Service Portfolio**		Customer-oriented
In-house	**Vertical Integration**		Multi-vendor outsourced
Decentralized	**Steering Model**		Centralized
Homebrew	**Technology**		Industrialized

Business Enabler
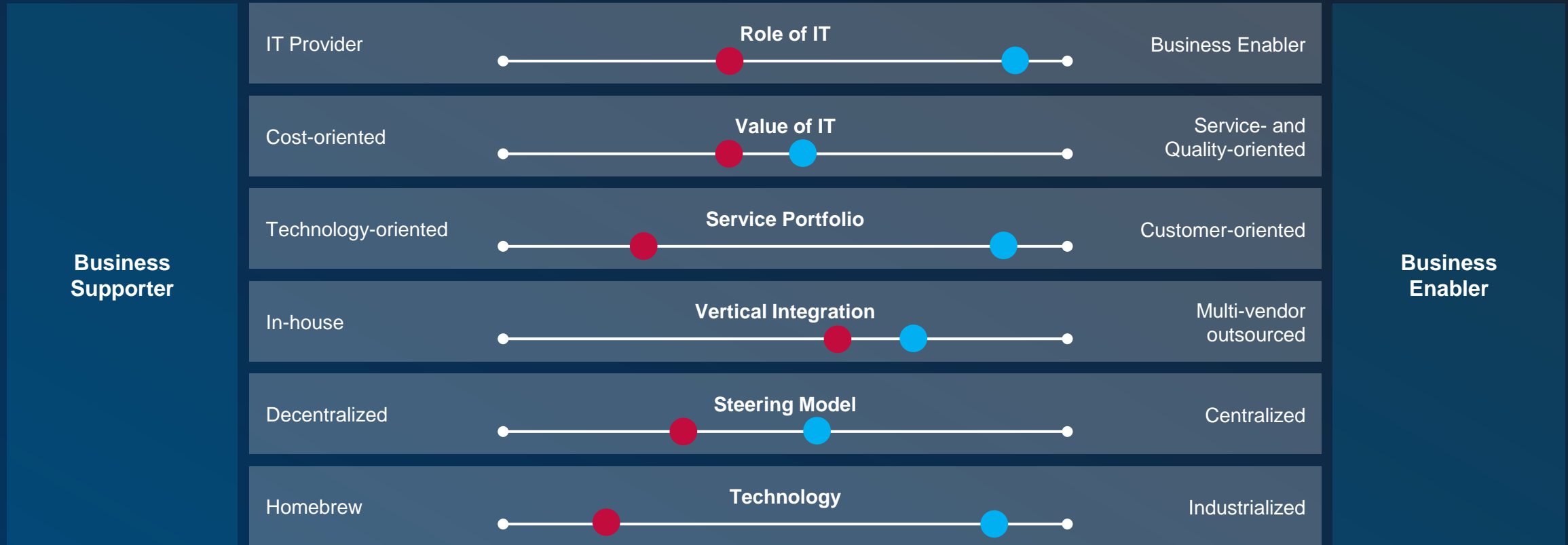
KPIs | Time to Market | Innovation Index | Cost | Agility | Quality | … |

● As-is   ● To-be (based on industry good practices and peer group benchmarks)

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IT Cost Benchmark gives objective view on areas to "loose fat" and increase operational efficiency – our client had some slack to optimize IT costs

IT Towers
Run

| End User | Storage | Application | Help Desk | … |

"Run" Analysis

IT Cost per End User
- 1.100€ — 13.000€
- 0€ — **2.800€** — 17.000€

Storage per GB
- 0,02€ — 0,50€
- 0€ — **0,70€** — 1€

Application Support Cost (3rd Level)
- 7% — 32%
- 0% — **18%** — 50%

Help Desk per Ticket
- 3€ — 39€
- 0€ — **34€** — 47€
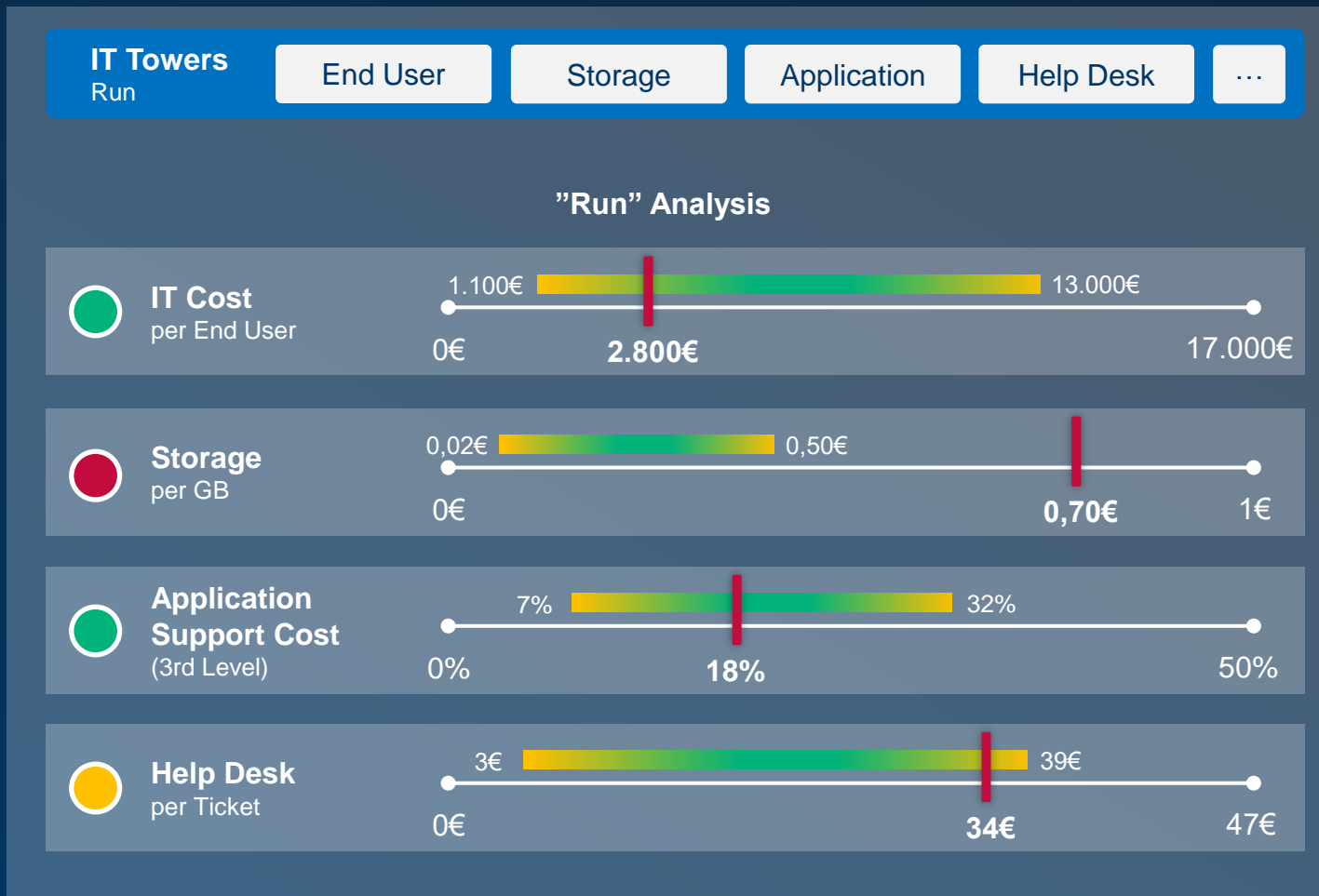
Our findings

- In our functional IT tower analysis we found that our client is mostly within a good practice range regarding its IT costs

- There was however some efficiency potential in Storage (by e.g. utilizing AWS, Azure) and Help Desk (by e.g. utilizing chatbots for standard requests)

The beneficial impact

- Reduced storage costs by 64% by switching to AWS S3 & EFS

- Reduced number of tickets for help desk by 31% and cut the response time by half with Zendesk (estimated ROI: 126%)

IT Cost Benchmark gives objective view on areas to "loose fat" and increase operational efficiency – our client was inherently underinvested to secure the future readiness of IT

IT Towers Change	Grow	Transform

Man Days

Demands

IT Capacity

20.000

Prio C

X

15.000

Prio B

✓

10.000

Prio A

5.000

We asked ourselves: how do we manage the demand overhang?

1 Budget increase

2 Disregard…
- Local and legacy developments
- Maintenance & support costs
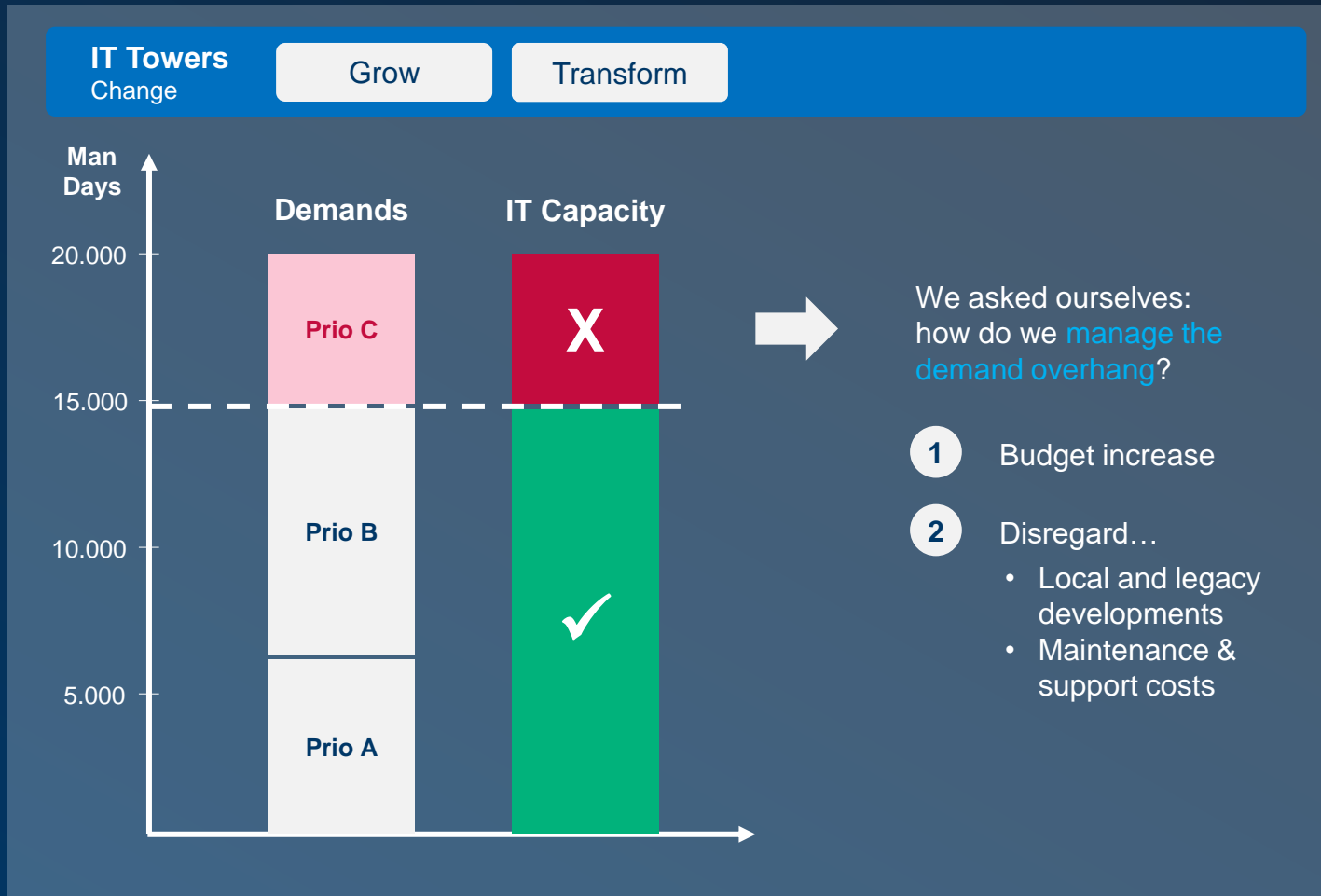
Our findings

- The quantitative cost & FTE data combined with the project portfolio indicated that there is an underinvestment risk in "change"
- Staff in "run" is operating on full 100% capacity to "keep the lights on"
- There is no innovational or at least evolutional character in the project portfolio

The beneficial impact

- We understood that this situation may lead to:
  - Business processes getting too little support
  - May trigger self-developments / shadow IT
  - Undesirable local solutions
  - Higher costs in the due to inconsistencies
- Re-prioritized tech roadmap incl. must-have industry trends aligned with CFO

15 **structured interviews** with cross-functional stakeholder in business and IT helped validating quantitative analysis findings for bulletproof results

Our findings

- Overall satisfaction level with the IT performance is above average as compared to peers
- Still, the last months show "response time" and "resolution time" have been perceived as a bottleneck by the business

The beneficial impact

- Validation of quantitative analysis with qualitative insights
- Structured prioritization of business needs in regard to „value-for-money"
- Aligned view on current bottlenecks – prioritized in regard to their business criticality

The updated portfolio shows, while some projects were re-prioritized, some new initiatives have been launched on a smaller scale to accelerate results

Technology Portfolio 2019 (Top 10)

Technology Portfolio 2020 (Top 10)

Project size — Small, Medium, Large
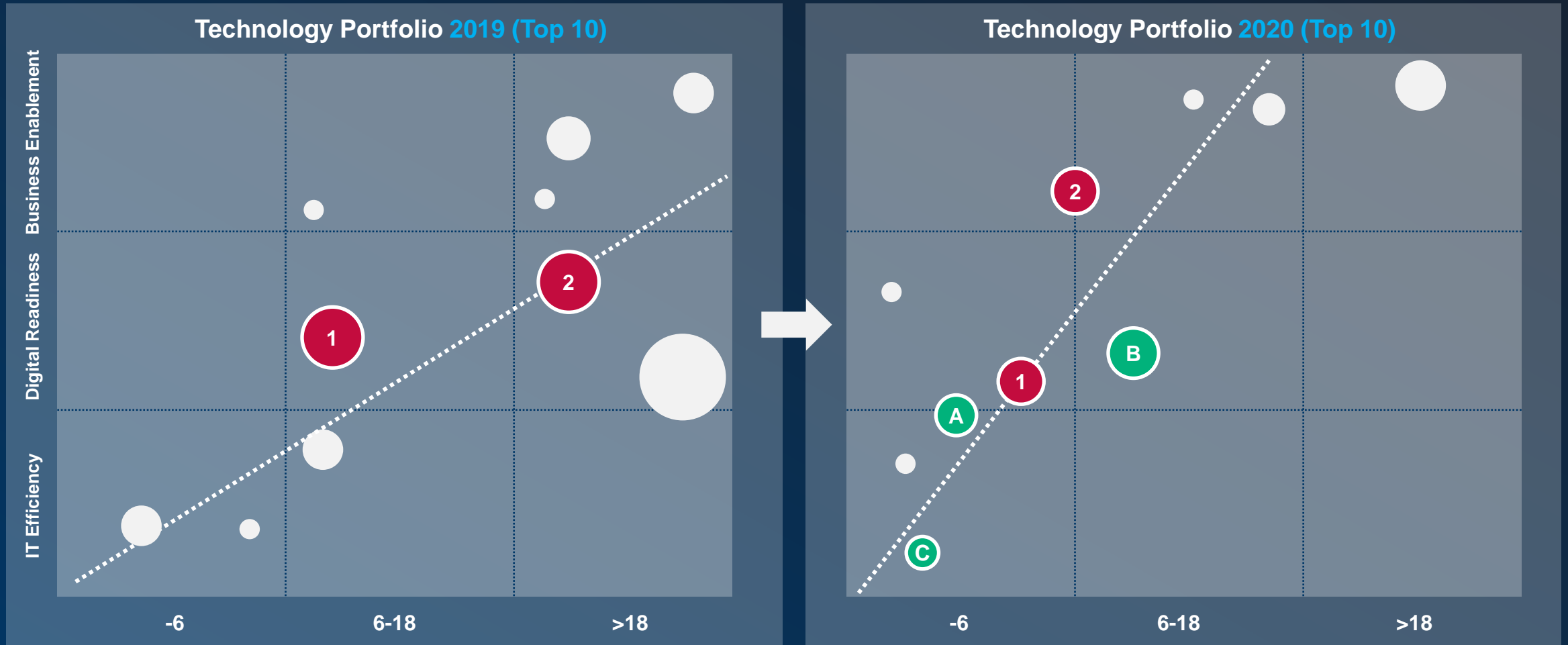
Roadmap Justification I Business Case: Adjusted roadmap outperforms initial cost target by 20% - with significant impact on client's digital readiness

Measures

ROI
until 2022

	Measure	ROI until 2022
A	AWS: Lift and shift of storage	**-69k**
1	Chatbot 4 Help Desk	**+120k**
2	Future of Finance: Part 1: RPA	**+191k**
B	Application portfolio rationalization	**+90k**
C	Portfolio planning 3.0 (criteria, parameters)	**-40k**
...	…	

Expected ROI

144%

Expected Business Growth Contribution

2,4M.€

by the end of 2022

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Next steps: Ensure roadmap implementation success and enable the organization to continuously manage "value-for-money" of their digital transformation initiatives
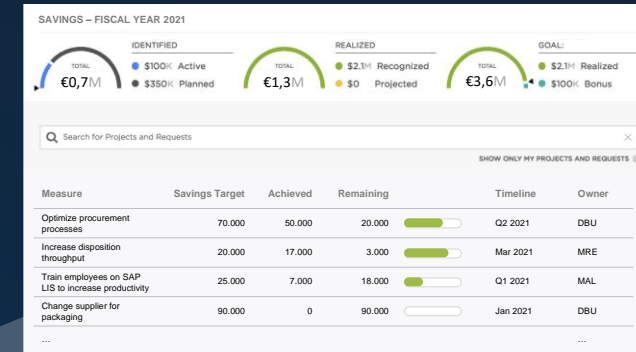
1 **Implementation Management**

2 **Digital Performance Management Cockpit**

- Tool-solution to manage and report implementation roadmap – progress, business impact, risks and interdependencies

- Smart PMO support to facilitate x-functional collaboration and provide good-practices

- Tool-solution to continuously analyze and report IT performance in regard to customizable KPIs:
  - Operational Efficiency
  - Business Enablement

Organizational Enablement

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Our Lessons Learnt & Key Success Factors

✓ **IT cost** are still a significant **burden** on CxOs current top priority to secure short-term liquidity – driving need to streamline cost and justify technology investments based on clear ROI

✓ Past investments in **digital enablers** do **not** deliver **expected value**, **investment backlog** in former "nice-to-have" topics (e.g. new work) slow down recovery from COVID

✓ Companies **struggle** to find a good **balance** between **cost optimization** and **need to invest** – prioritizing areas "where to loose fat and where to build muscles"

✓ Out-performer take a **hybrid approach** managing their technology roadmap holistically –

- o Streamline **non-vital IT cost** by up to regain room for smart digitalization decisions

- o A**djust** their **priorities** to digitalize their business- and operating model taking an updated critical view on their digital maturity to **identify** the most urgent **gaps**

- o Re-calibrate their strategic priorities and **update** their **project portf**olio of ongoing and planned initiatives critically

- o Apply a rigid "Digital Performance Management" approach **managing value-for-money** of their Digital Transformation holistically – overcoming outdated IT cost silos

We get this question a lot – so we'll answer it right away
How long does it take and **how much does it cost**?

IT Cost Benchmark

Digital Health Check

Technology Roadmap
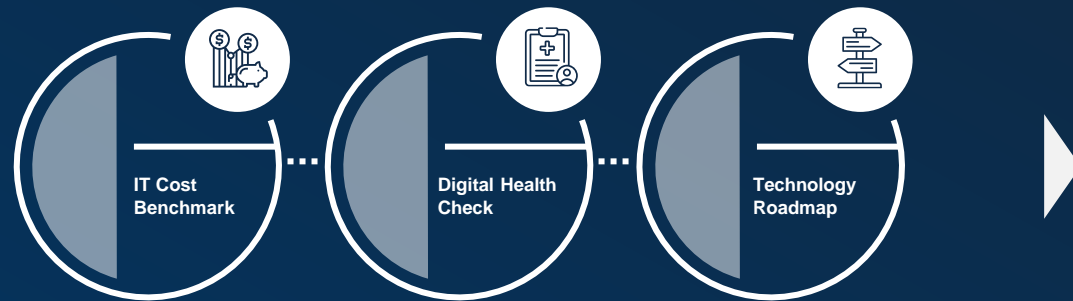
8 - 12 weeks

≈

110 - 140k EUR

Range shown is mainly dependent on client data availability and quality

Do you have any questions?

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We are happy to discuss more details and share experience - Let's get in touch!

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