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Managing IT spending

Many IT organizations will reduce their spending in 2009. A strong management focus can mitigate the pain—and create opportunities.

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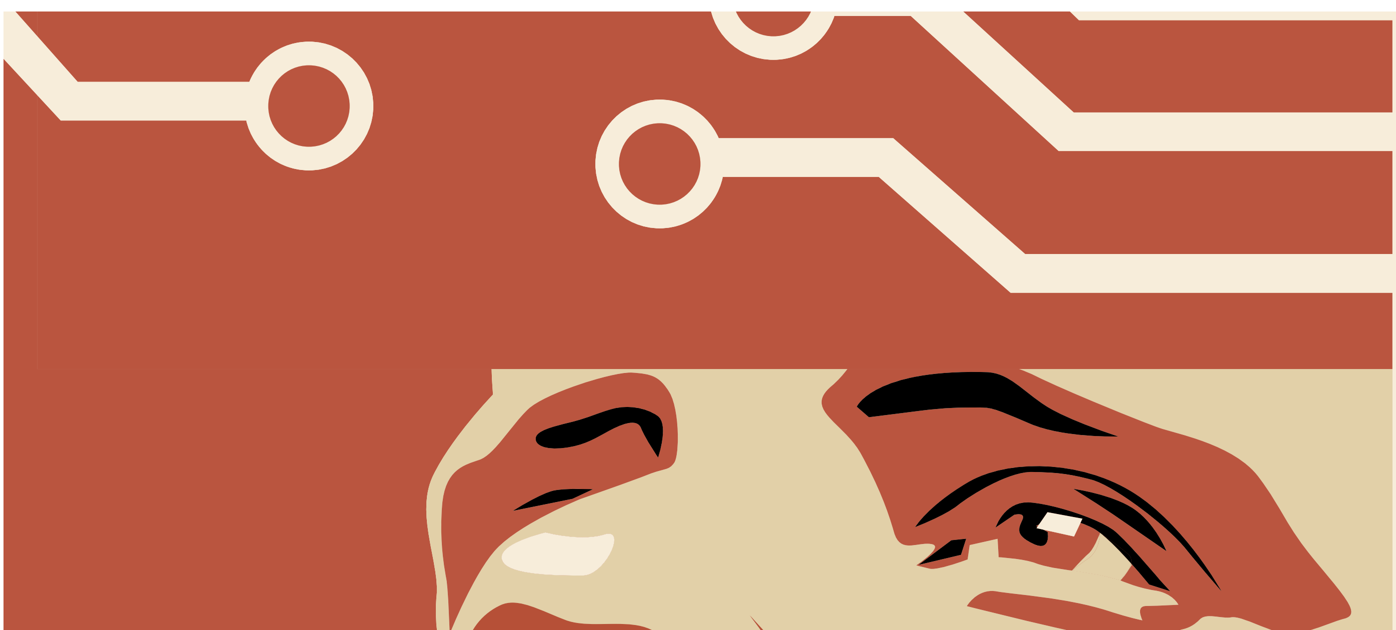

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With growth slowing and valuations declining, businesses badly need to extract value from their IT functions. The operative questions are, “How much?” and “How?” As CIOs choose a path, they need to determine whether they can afford to take a “through cycle” perspective, balancing short-term financial improvements and the possible impact on longer-term capabilities. They must also consider the need to act quickly to generate cash, even if such moves prove less attractive once the recession ends.

Almost all IT organizations can and should reduce IT spending in 2009. But this will be difficult. Many companies have built up complex application environments that require ongoing support. Contractual commitments to vendors can be difficult to modify. Adding to the challenge, organizations rarely agree internally on business priorities for IT.

Still, with sufficient management focus, it’s possible to cut costs dramatically and quickly. Companies can trim and rationalize demand for new applications. Existing IT capacity, like servers and storage, can be shared and application maintenance spending capped. Taking a “zero based” view of an organization (reimagining it from scratch) may help to peel away unnecessary management layers and eliminate non-value-adding functions. Meanwhile, companies can renegotiate some contracts to reflect changing market conditions and can accelerate efforts to move operations offshore.

Some businesses, however, face tougher challenges. They must substantially improve their cash positions just to survive. As they cut near-term costs, these IT groups will need to reduce investments and rationalize organizations aggressively. One company in danger of violating debt covenants reduced its IT cash outlays by 22 percent in a year, excluding severance. It made tough choices about which capabilities for which business units would be delayed and what kind of new, lower levels of IT service would be acceptable.

Making money from assets is another path for those needing to generate cash. All large organizations have hundreds of millions of dollars locked up in IT assets. They may consider selling data centers or spinning off overseas service centers. Sale–leaseback transactions of such facilities are another option. Even if these moves could be unfavorable in the longer term, the short-term value of cash may make them necessary.

Companies that face less severe capital constraints and can navigate through the recession cycle should not only cut costs but also seek out additional opportunities to improve business performance. They can use IT to increase revenues and reduce operational costs in the short term. Often, these improvements can be made with modest investments. Companies can use data more effectively and optimize processes through technology. IT, for example, can be vital to improving supply chains by enhancing logistics and inventory management. Similarly, better data can sharpen insights into customer segments, pinpointing opportunities to change prices or focus sales efforts. Over 12 to 18 months, these projects may return up to ten times the bottom-line impact of simple IT cost reductions.

Companies with sufficient management resources in this downturn may want to undertake more far-reaching restructuring of their IT departments. In many areas, IT functions can realize further efficiencies by changing management practices and models and promoting more interaction with the rest of the business. Improving IT's cash situation in the short term can, in many cases, generate funding and support within the organization for more far-reaching improvements that will have even broader impact. Q

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