

Survey report Australia's IT agenda 2009

Read why current tactics of Australia's largest organisations may not deliver the required sustained cost reductions and what to do now to achieve high performance through IT.

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Australia's IT agenda 2009 – Managing for today and positioning for tomorrow



Recently, the CIO at a large Australian company had been given a tough task: "Cut 25 percent of total IT costs". He knew immediately that he couldn't achieve the target on his own because most of the IT spending was driven by the business units. There were a number of large change programs underway, some on track, some late and some way over budget. The CFO stepped up and helped take charge of the cost reduction program, compelling all business unit CEOs and IT to work together to deliver the target outcome.

New research, jointly conducted by Accenture and *MIS* magazine with executives from nearly 100 of Australia's largest enterprises, confirms that in the current environment, the IT function is challenged like never before as organisations try to balance IT cost reduction with support for wider business savings and delivery of urgent strategic transformation programs. Specifically, the research found:

- Most large organisations in Australia are running or planning IT cost-cutting programs, with some targeting significant reductions. They are targeting a subset of the available cost reduction levers. By implementing initiatives that achieve structural reductions in IT operating costs, they could achieve much deeper and more sustainable cost reductions, freeing up money for new investment.

- IT functions are playing a strategic role in positioning organisations for the future. While being at the heart of major cost reduction initiatives, they also continue to drive ongoing business transformation programs, such as process redesign and automation; development of new channels, products and services; and the replacement of core, enterprise resource planning (ERP) and financial systems.

1. Making IT cost reduction strategic and sustainable

It's inevitable that cost-cutting efforts will land heavily on IT, since it is a significant cost centre in almost every business. That's sobering news for CIOs, most of whom have reduced costs considerably across their IT functions over the past few years.

Everyone is targeting significant cost reductions

Our research confirms that private sector businesses and public sector agencies in Australia are looking hard at their IT spend. Across all industry sectors, survey respondents said that their organisation was either already running IT cost reduction programs or planning to launch them within the next 12 months (see Figure 1).

Organisations manage their IT spend in two categories: capital expenditure (capex) and operating expenditure (opex). What may not be obvious is that the two are controlled by different groups within the organisation. IT capex is primarily driven by the business to introduce new products and services, better target customers, and change processes to improve productivity and lower costs. IT opex, on the other hand, is the cost of running IT (networks, servers, data centres and desktops) and is largely controlled by the IT function.

Thirty-six percent are cutting IT capex within the next 12 months

Some respondents are targeting significant reductions, with 13 percent indicating they are reducing IT capex by more than 30 percent. This suggests that a significant number of major projects are either being suspended or at least delayed in the short term.

However, the data suggests that most of the significant IT capex reductions are already underway, with minimal additional reductions planned over the next 6–12 months. This indicates a potential for renewed activity related to business improvements.

Sixty-nine percent are cutting IT opex within the next 12 months

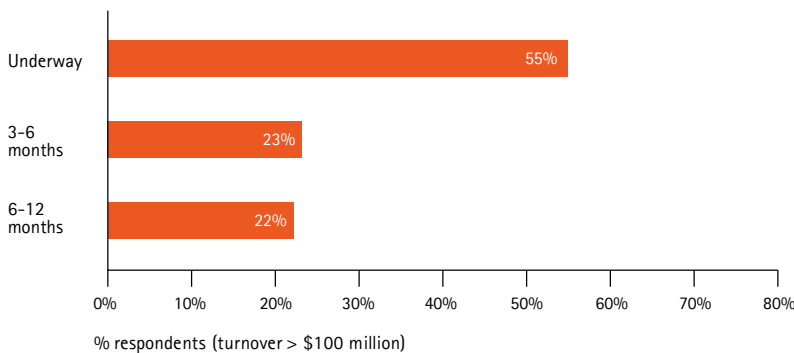
Accenture's global experience shows that large organisations typically spend up to 70 percent of their IT budget on operations. In our research, 69 percent of respondents indicated they are making cuts in this area within the year. However, the majority are aiming for relatively modest reductions of 5–10 percent. Only 5 percent want to achieve a reduction of more than 30 percent.

Minimising, optimising and redesigning for sustainable cost reduction

Accenture groups cost reduction levers into three categories:

- Minimisation programs – These accumulate early savings, funding the changes that will produce larger, more sustainable benefits.
- Optimisation programs – These improve the use of IT assets, thereby decreasing the average IT unit cost while longer-term strategies are developed and implemented.
- Redesign programs – These improve cost reductions while working towards the greater goals of the IT organisation and the business, thereby ensuring the long-term sustainability of the savings.

Figure 1 – Timeframe in Which Respondents are Planning IT Cost Reduction Initiatives



The survey results show that large Australian organisations are targeting a variety of cost reduction initiatives but most are falling short of a strategic approach that will deliver sustainable reductions (see Figure 2).

Minimising

The most popular initiatives being undertaken by the survey respondents were:

- IT procurement spend reviews (65 percent)
- Rationalising IT contractors (65 percent)
- Telecom expense management (61 percent).

Less popular were increasing end-user self-service (14 percent) and renegotiating service level agreements (12 percent).

Optimising

Optimising operations is about consolidating key components and suppliers, and the 'sweating' of assets. Most common ways of optimising among respondents were:

- Renegotiating IT supplier contracts (57 percent)

- Virtualisation programs (50 percent).

However, our research also shows that many strategic opportunities are under-utilised:

- Consolidate servers and storage (34 percent)
- Rationalise applications (23 percent)
- Increase use of outsourcing suppliers (22 percent)
- Find and reduce IT costs hidden away in business units (14 percent)
- Increase use of offshoring (8 percent)
- Focus on reducing IT energy consumption (green IT) for cost savings (9 percent).

Redesigning

Redesigning is about optimising the efficiency of core processes, operating models, architectures and sourcing strategies, and automating

IT processes. A full 42 percent of respondents indicated they were looking to redesign their IT operating models. However, other redesign measures such as the following were targeted much less frequently:

- Restructuring outsourcing arrangements (22 percent)
- Redesigning business processes (14 percent)
- Rationalising enterprise architectures (9 percent).

2. Positioning the business for the future

Australian enterprises have responded to the current economic uncertainty by revising their strategies. According to our respondents, the business agenda over the next 12 months will be dominated by two imperatives (see Figure 3):

- Achieving or maintaining a low-cost position (49 percent)
- Increasing productivity (42 percent).

Only a small group of respondents were focusing on driving growth (19 percent) or launching new products and services (16 percent).

Business cost reduction through IT

One of Australia's largest transportation businesses was losing money. Management had to try to identify hundreds of millions of dollars in total cost savings. Initial analysis revealed the most immediate benefits would be gained from targeting the organisation's procurement function. The resulting change program encompassed the definition and implementation of a procurement operating model, the implementation of a new spend management technology solution, and a restructured organisation.

In our survey, 56 percent of respondents said their IT departments

Figure 2 – Summary of the Most Frequent Cost Reduction Programs Underway

Cost Reduction Areas	Cost Reduction Levers (% of respondents pulling lever)			
	0-25%	25-50%	50-75%	75-100%
Minimise Focus on immediate cost reduction opportunities	Minimise Hidden and Other Costs Minimise Project and Portfolio Spend	Minimise 'Lights On' Spend Minimise Printer and Fax Spend	Minimise Workforce Spend Minimise Procurement Spend	
Optimise Focus on improving the use of hard assets and decreasing their average transaction costs	Optimise Project Costs Optimise Service Costs Optimise Hidden and Other Costs	Optimise Software Costs Optimise Hardware Costs	Optimise Third Party Supplier Costs	
Redesign Focus on lower-cost delivery models	Redesign Business Processes Restructure Outsourcing Arrangements Rationalise Enterprise Architectures	Redesign Organisation Structure		

were significantly involved in or essential to business cost reduction programs in the organisation. Executives identified the following business areas for the greatest potential cost reductions through IT initiatives:

- Supply chain and procurement
- Finance and administration
- Product and service delivery
- Customer relationship management.

New growth

A leading Australian business had recently completed several acquisitions, resulting in duplication of organisational processes and systems. A program to integrate a centralised IT enterprise and customer relationship management system into the business is expected to deliver estimated annual savings of \$15 million in IT costs and \$30 million in business operating

costs. Even more importantly, the new system allows the creation of new products and services, positioning the business for future growth.

Our research confirms that enterprise-wide business transformation programs are continuing in most Australian organisations. In fact, 80 percent of respondents said their IT function was supporting major initiatives to transform the organisation. Frequently mentioned programs included:

- Organisation- or business-function-wide process redesign and automation
- Improvement or automation of customer service
- Development of new channels, products and services
- Core systems replacements as well as major ERP and financial systems replacements.

3. Managing the new agenda

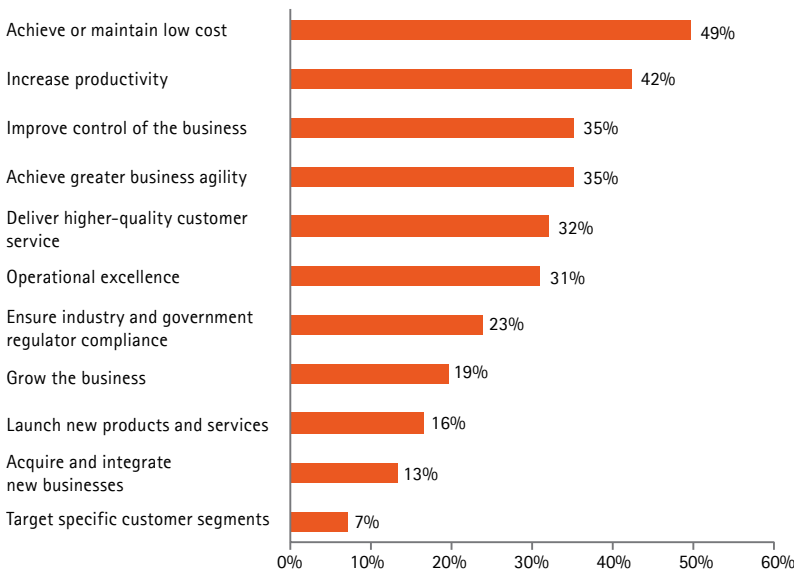
Today's economic and business climate means that Australian business leaders and CIOs need to work together to achieve two fundamental objectives:

- Improving IT and business cost effectiveness through sustainable change to underpin cost drivers
- Increasing the value of IT through more rigorous investment management and greater interaction with the business.

Achieving these objectives will require three major workstreams:

- Developing a comprehensive, top-down plan to rapidly and sustainably reduce IT operating expenditure, with a view to freeing up money for continued investment into the business.
- Putting in place a formal process for IT investment portfolio management to create a clearer link between IT capabilities and their contribution to the delivery of business value.
- Improving governance of IT projects and major business programs. This must include alignment of metrics and incentives to business outcomes. Another feature should be close business oversight over IT and, in return, IT leadership involvement in business transformation planning and management.

Figure 3 – Strategic Business Imperatives over the Next 12 Months



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