



How low can you go?
Achieving sustainable
IT cost reduction

Most IT cost reduction programmes lack ambition. Deloitte’s recent survey of Fortune 500 organisations found that two-thirds of such initiatives aimed only for single digit cost savings.

Furthermore, these organisations typically fail to achieve sustainable benefits – only 19% of respondents took measures to ensure that cost savings were maintained in the future.

Current economic conditions intensify the focus on achieving quick wins, often at the expense of implementing longer term initiatives that could deliver much greater savings. This short term focus can also result in unforeseen costs outside IT which reduce or even outweigh the initial savings.

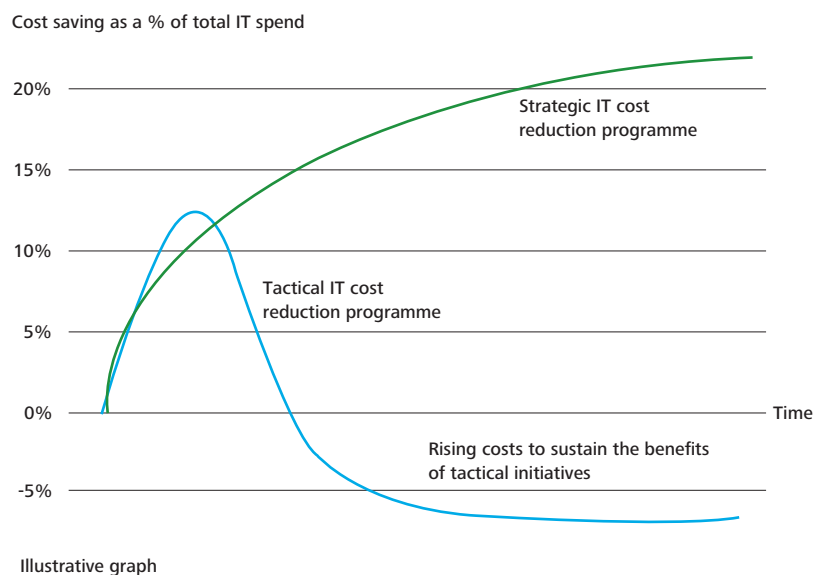
Worse still, such ‘slash and burn’ activities can reduce IT’s ability to support new business demands.

Clearly, a new approach is needed.

Deloitte believes that a strategic approach to IT cost reduction can deliver savings of between 20% and 30%. More importantly, these savings can be sustainable, and can be achieved without reducing IT’s ability to meet future business needs.

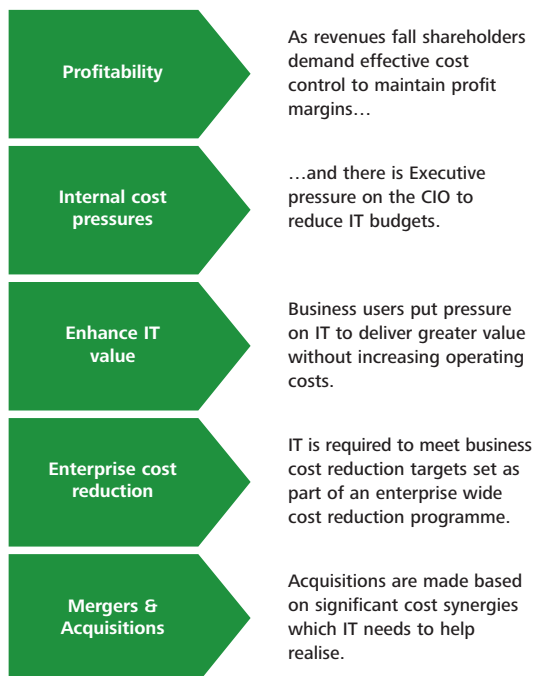
Achieving this requires a balance of tactical and strategic cost reduction initiatives, with a focus on the total cost of IT service delivery, coupled with a willingness to transform the IT operation.

Chart 1. Cost reduction: Taking a strategic view



Pressure like never before

The IT function continues to face a variety of internal challenges and external pressures. These include:



Today's unprecedented economic conditions magnify these challenges, meaning that there is greater emphasis to reduce IT costs. As most organisations have been through at least one cycle of cost reduction it is also getting harder to find new savings. Our clients' are increasingly asking us how to:

- Reduce IT costs, even when business demands are increasing.
- Realise immediate cash benefit, without compromising strategic objectives.
- Take advantage of any opportunities created by the economic downturn.
- Minimise any risks associated with the fragile global economy and assess the impact this may have on IT providers.

The quality of the team provided by Deloitte was very high, as was the quality of the deliverables they produced. Their work has not only provided us a baseline from which to measure future improvements against, but the initiatives and recommendations made by Deloitte were practical and tangible; we immediately started to implement them and see the benefits.

Data Centre Efficiency Review and Longevity Assessment:
IT Director, UK Infrastructure & Operations, Tesco



So what's the answer?

While there is no magic solution, there are a range of tactics that can be adopted to deliver more for less.

It is essential for IT to work with Sourcing, Finance and HR. A coordinated approach will deliver greater benefit, avoid double-counting and help ensure sustainability.

It's also important to explore as wide a range of savings tactics as possible, drawing on the experience of others. At Deloitte, we have a database of savings hypotheses that have been tried and tested over many years. Based on our experience, we have developed a simple checklist to help our clients see their cost base with fresh eyes that result in positive savings.

Deloitte is well practised at finding quick-wins savings, in months – or even weeks. But instead of just banking all the cash we help our clients to take a broader view to fund more strategic longer term initiatives. Often these will have a far reaching impact on the way IT is delivered, perhaps combining outsourcing, offshoring and a new IT Target Operating Model.

Deloitte can draw on real market knowledge to understand how others are dealing with the challenge, and to provide insights into the roles that can be played by IT suppliers. If the business needs cash we can also help structure major deals that will deliver significant short term benefits, without mortgaging your future.

Seven golden rules

1. Cast your net wide to capture all possible savings hypotheses and examine each carefully. Go from a long list of theoretical possibilities to a validated list of weighted opportunities.
2. Make more effective use of existing technology through people, process and control improvements.
3. Get the right mix of tactical and strategic improvements whilst protecting strategic IT investments.
4. Ensure you have a clear understanding of your current cost baseline. Most organisations think that they do, but find out too late that they are chasing a moving target. Set clear savings targets and measure progress towards them.
5. Focus on tried and tested savings initiatives; too many IT cost reduction programmes include unrealistic goals such as the mass consolidation of business applications.
6. Involve business users, making it clear where initiatives may require the business to do things differently.
7. Review current projects and prioritise ruthlessly based on regulatory imperative and business benefit.





Our experience

Deloitte worked with TfL to realise over £100m in efficiency savings over three years. Spend with third party suppliers was reduced across the categories Professional Services, IT, Telecoms and Agency Labour.



Deloitte implemented an IT cost reduction programme that realised over 15% savings in Barclays reoccurring third party IT spend within the first year. It resulted in sustainable cost reduction for sourcing, vendor management and demand management.



Deloitte assisted Aviva from business case design through to contract signature, helping achieve over 20% savings for a contract worth approximately £700m. The programme has successfully undergone two independent audits to ensure programme quality, assurance and value delivery.

So why do I need Deloitte's help?

Experience

Deloitte has over 200 practitioners focused in this area which gives our clients immediate access to a wealth of experience, backed up by a range of tools including a database of around 300 proven IT savings hypotheses.

Breadth

IT cost reduction doesn't just need IT skills, but also draws on expertise in areas as diverse as R&D tax credits, IT procurement, financial modelling, indirect tax, real estate, operating model design and green IT. Deloitte gives clients access to all of these skills.

Independence

Many of your existing hardware, software and managed services vendors will offer advice on reducing IT costs. However, only a truly independent firm like Deloitte can offer truly impartial advice. If certain cost reduction initiatives are counter productive to our client, we will tell them.

Credibility

Deloitte's standing as the UK's premier business advisor gives us instant boardroom credibility. We have earned this reputation by focusing on the business success of our clients, combining specialists skills with an insight into our clients' businesses that helps builds trust and confidence.

Deloitte immediately grasped the complexities of our organisation. They worked closely with our people and were able to gain consensus across a large group of diverse stakeholders. They combined insight with a can do attitude which was sustained throughout the engagement. The strength of their team's skills and experience was pivotal in ensuring the programme was a success. All in all this was a very successful partnership and a very successful programme.

CIO Sourcing Programme:
Then Head of Global Technology Sourcing, Barclays

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