

IT Optimization: All about cost reduction? Or also enabling business value?



Everybody thinks IT optimization is a good idea. They just don't agree on what it's supposed to accomplish. Ask a dozen people what IT optimization really means and you'll get a dozen answers – especially when you focus on how it should be used. Some say it's all about minimizing costs. For others, it's about improving capabilities and generating more value for the business. Which is it?

	Point	Counterpoint
It's all about minimizing costs. <i>IT is a major cost center – this is a good way to cut unnecessary spending.</i>	<p>You're in cost containment mode already because of the economy, and IT is your single largest capital expenditure. Of course it's about cost.</p> <hr/> <p>IT isn't the place to differentiate. You shouldn't spend any more than you need to on an asset that competitors will duplicate next week anyway.</p> <hr/> <p>The longer you wait to invest in technology, the smaller, faster, and cheaper it will be. Hold out as long as possible and stay focused on cost containment.</p>	<p>Separate the "what" from the "how." Look for cost-effective ways to deliver IT service – but without constraining your ability to deliver more and better services. Isn't that the smarter choice?</p> <hr/> <p>The "I" in IT is an asset that I must leverage. It doesn't matter what industry you're in – you need every advantage you can get.</p> <hr/> <p>The main reason for IT in the first place is to meet business needs. And businesses today need faster, better, and <u>smarter</u>. You have to think bigger than cost. Markets can be made and lost while you're waiting for prices to drop.</p>

	Point	Counterpoint
<p>Serve the business better.</p> <p><i>Optimization delivers real business benefits when you do it right.</i></p>	<p>Especially in a down economy, your business has to be able to perform more efficiently. IT investments can reduce costs elsewhere – the bottom line doesn’t care where efficiencies come from.</p>	<p>IT has always promised efficiency gains. But look at the percentage of failed technology projects in the marketplace today. Do you really want to add to that list?</p>
	<p>IT capabilities need to match your business needs, period. That requires a balanced portfolio of projects. Optimization can get you there.</p>	<p>You’re letting the tail wag the dog. If you think technology is going to lead the business, think again.</p>
	<p>IT spending is an investment, like any other business investment. Why hold IT to a different standard if the returns are there?</p>	<p>Don’t overthink this. IT is plumbing, plain and simple.</p>



My take

Peter Blatman, Principal, Deloitte Consulting LLP

It’s tempting to view IT optimization primarily as a mechanism for reducing IT service delivery costs, or for cutting the costs associated with IT capital projects. But IT doesn’t operate by the same rules as other parts of your business. That’s because you can leverage IT to reduce costs throughout the enterprise. In fact, a CEO recently told me that he was willing to spend *more* on IT if it would help him achieve significant cost reductions in other parts of the business. For him, the point was decreasing overall costs. He didn’t care where the savings came from.

The key is striking the right balance between IT capabilities and costs to maximize business value. Think about it like this: What’s the ratio of value-delivered to IT cost? Value here should be defined as a combination of increasing revenues, decreasing (overall) costs, reducing business risk, and building new business capabilities. It may be helpful to consider the answer in terms of IT investment and spending in four categories: growth, innovation, maintenance, and productivity. The percentage of your IT dollars allocated to each of these categories may vary based on the economy or other external factors (e.g., competitive positioning), but maintaining an appropriately balanced IT investment portfolio is key to long-term business success.

A rational approach to IT optimization will vary significantly by industry, sector, and company specifics. Some manufacturers, for example, may not rely heavily on technology outside of logistics – for them, it may make sense to optimize IT with overall cost minimization in mind. On the other end of the spectrum, in industries where innovation is the name of the game (pharma, technology – take your pick), technology is clearly a key driver of business value. And that calls for a different approach to thinking about IT optimization. As you evaluate your IT investment and spending plans, use the following questions to help guide your efforts:

- How does IT support your company’s value proposition? Are you spending the majority of your IT dollars accordingly?
- In this challenging economy, am I allocating enough IT funds to build the capabilities we’ll need during the coming rebound?
- Are all current IT capital projects being effectively managed and resourced to control overall costs and minimize delivery risks?
- Are there opportunities to reduce IT operating costs in a manner which doesn’t impact overall business performance?

Whether your goal is to reduce total dollars spent (SG&A and IT), or to maximize “bang for the buck,” a balanced approach to IT optimization can be a great means of getting there.

A view from the Consumer Products sector

Suketu Gandhi, Principal, Deloitte Consulting LLP

Consumer products (CP) companies spend less on IT for a number of reasons, mostly dictated by industry economics and the value IT delivers to the final product. Most of our CP clients spend between 1.8-2.4% of total revenue on IT, which is lower than many other industries which rely more heavily on information (think financial services).

You might think that because CP companies spend proportionally less on IT, they view it primarily as a cost center. That's true for some of our clients, but many take another view – because they spend a relatively small amount on IT, there's even more pressure on IT to deliver business results that match the investment. These companies maintain a laser focus on maximizing the business value of every IT dollar spent, and IT optimization is an important tool in that fight.

It all comes down to priorities. Here are some key questions that we help our CP clients answer when beginning an optimization project:

- Does this IT service address an unmet need of the consumer?
- Does it help improve efficiency when it comes to the purchase process, from the point of view of either the consumer or the seller?
- Is this a strategic capability that should be owned internally, or sourced externally?

The questions are simple enough, but the answers speak volumes about IT's ability to deliver value in three key areas: consumer insight, pricing and promotion effectiveness, and supply chain flexibility. If those aren't important areas of focus for your CP company, what is? IT optimization has a big role to play in each of them. Cost reduction is only part of the picture.

A view from the Financial Services sector

Forrest Danson, Principal, Deloitte Consulting LLP

As the Financial Services sector claws its way back from the brink, IT optimization remains a hot topic. For the past 18 months, "optimization" has really been code for dramatic cost reduction, characterized by slashing investment budgets and looking for ways to squeeze costs out of business-as-usual maintenance and support costs. Consolidation has been equally rampant, with IT being the primary focus of post-M&A streamlining.

As a result, the dynamic between IT and the business has changed, with a growing view of IT as a cost center rather than a value-add partner.

But as the severity of the downturn recedes, many in the financial services industry are returning to a broader view of IT optimization. Banks and securities firms are dusting off their growth strategies, taking another look at current product mixes and even evaluating strategic acquisitions and geographic expansion. Offshoring. Outsourcing. Meeting new regulatory requirements. IT is expected to play a big role in all these activities, delivering the ability to more closely monitor these organizations' real-time financial positions. As a result, they're considering new investments in information management, including data warehousing and business intelligence platforms.

To manage increases in IT investments, many companies are enhancing their IT investment governance processes. They require solid business cases with measurable ROIs and value metrics from the start of a project, often with <1 year payback periods. For ongoing "business-as-usual" expense areas, many are driving increased transparency around cost drivers to allow business areas to manage demand for core IT services. The goal for all these efforts is to foster stronger partnerships with the business areas they support to ensure joint ownership around the results – and avoid the "black hole" syndrome in which IT spend merely escalates with few measurable results.

In financial services, a single-minded focus on cost reduction through IT optimization was appropriate. But as things start to heat up, look to drive more business value beyond costs from IT optimization.

For more information, please visit: www.deloitte.com/us/debates/itoptimization.

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