

The Deloitte logo is positioned in the top left corner. It consists of the word "Deloitte" in a white, sans-serif font, followed by a small green dot. The background of the slide is a dramatic, dark sky with heavy, grey clouds over a body of water. In the distance, a city skyline is visible, with a prominent white building and a large cylindrical structure on the right. The water in the foreground is dark blue with some ripples.

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Managing IT in uncertain times: the new reality.

Phill Everson

October 2008

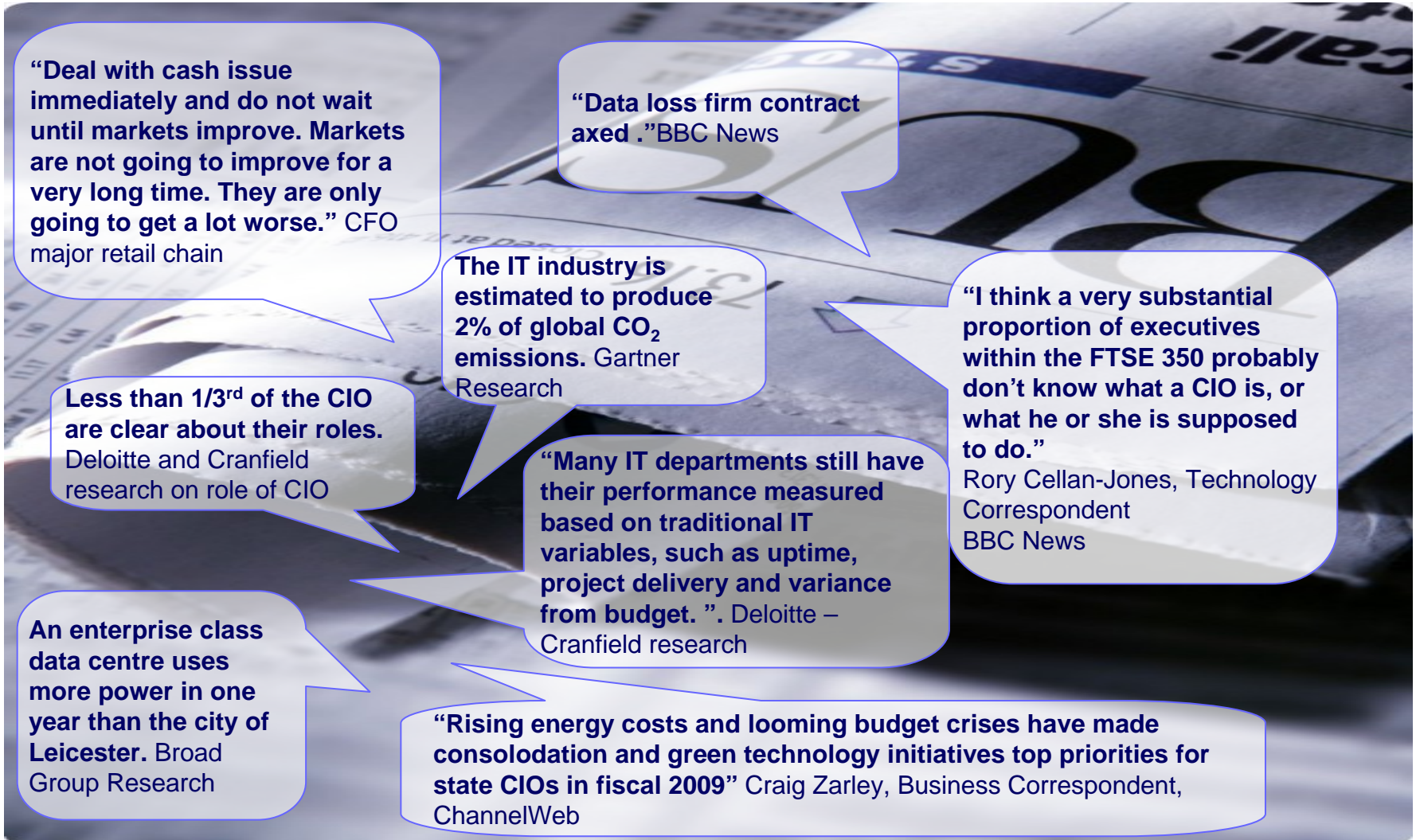
Audit . Tax . Consulting . Financial Advisory .

Background – Uncertain times

Challenge

Response

Shifting winds surround us: a looming recession, volatile energy prices, green regulations and data privacy issues.



IT focus has been on...

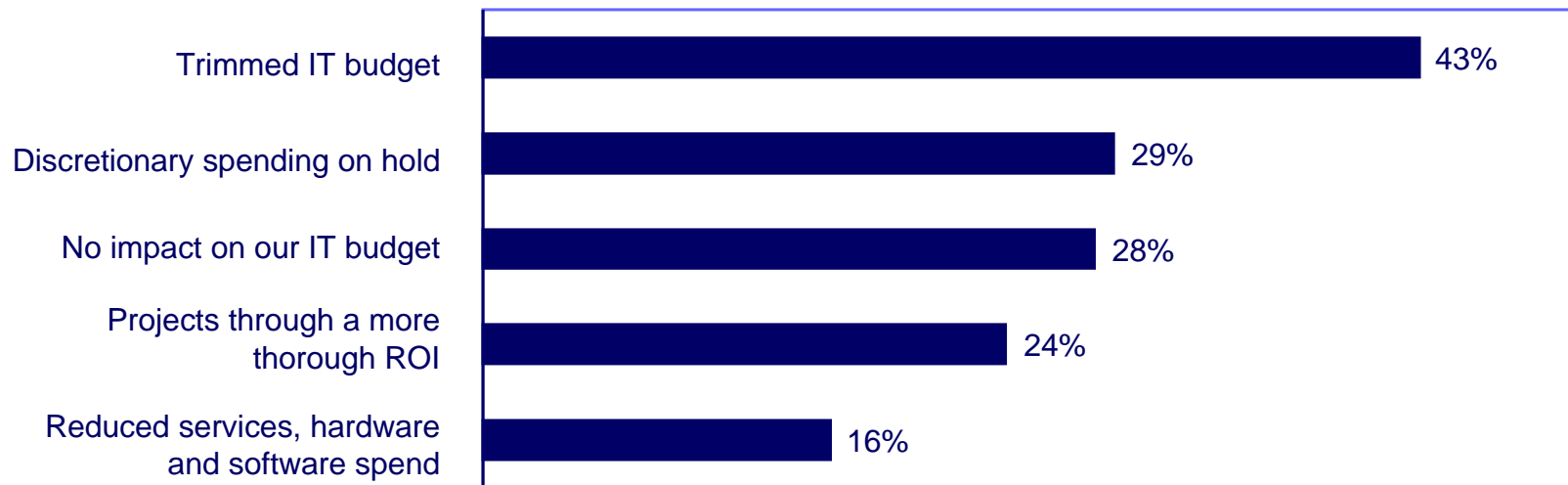
1. Fight for simplicity
2. Do the “right” things
3. Do things “right”
4. Execute, monitor and control
5. Reject unrealistic service levels
6. Measure the right things
7. Build a “living” business case
8. “Build in” the learnings
9. Manage sourcing smartly
10. Charge “properly”

...but times have changed

Every penny counts: cost and cash pressures dominate.

- Rises in commodity prices, nationalisation of banks, poor GDP growth and reduced consumer spending are increasing pressure on companies to reduce spend
- Credit crunch and high cost of borrowing is putting a premium on cash
- Corporate relationships with banks are changing significantly
- Business wants higher ROI on invested capital
- Business is challenging capital investment decisions in light of liquidity constraints

Impact on IT spending due to current economic slowdown

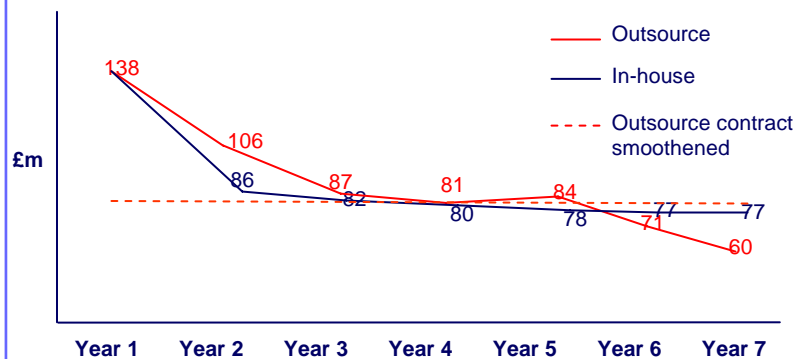


Source: Forrester Sep 2008 -The State Of Enterprise IT Services: 2008

Outsourcing is no longer seen as a panacea, we cannot simply give the problem to someone else.

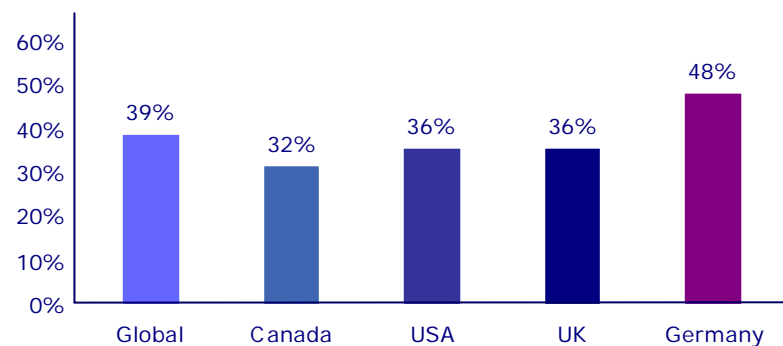
- The measurement of success is moving away from cost reduction towards managing performance
- Outsourcing contracts are failing to deliver substantial cost saving over and above in-house radical cost reduction alternatives
- Inconsistent and poor service quality is being highlighted as a major issue by many service providers
- Dissatisfaction is leading to either contract termination, replacement of outsourcers or in-sourcing to deliver services
- Increasingly companies are moving towards multi-vendor and selective sourcing. The number of single deals that include multiple services has decreased to less than 50%¹

Radical cost reduction delivering the same benefit as outsourcing



Source: Deloitte analysis of an outsourcing deal

A large number of companies are terminating or replacing Outsourcing companies



Source: Why Settle for Less - Deloitte Outsourcing study 2008

¹ Source: Forrester EMEA IT Outsourcing Deals: 2007 – Multiple services deals dropped by four percentage points to 48%

Going green is on top of many executive agendas. If it is not now, consumer and regulatory pressure will put it there soon.

“What is my CIO doing to minimise our environmental impact?”

An enterprise class data centre uses more power in one year than the city of Leicester. Broad Group Research

The IT industry is estimated to produce 2% of global CO₂ emissions. Gartner Research

A PC left on all day will cost about £37 a year. If switched off at night and at weekends, this drops to nearer £10 a year. Carbon Trust.

For an organisation with 50K desktops, this equates to a saving of £1.3m

Today, energy costs typically form less than 10% of the IT budget. This could rise to more than 50% in the next few years. Rakesh Kumar, research Vice President, Gartner

Electricity use for servers has doubled since 2005. Deloitte client

Energy efficiencies of up to 55% can be achieved in the data centre. EPA Report to Congress

The Kyoto treaty commits Britain to keeping emissions to 12.5% below 1990 levels by 2012. United Nations Framework Convention on Climate Change

Data security and privacy breaches are now clear threats to business. IT has to help mitigate this risk.

Data security has dominated the newspaper headlines in recent times

- **TJX breach could top 94 million accounts**; Filings in case involving Visa cards alone as much as \$83 million¹
- **Brown apologises for records loss**; Prime Minister Gordon Brown has said he "profoundly regrets" the loss of 25 million child benefit records²
- **Data loss firm contract axed**; A company which lost the details of thousands of criminals held on a computer memory stick has had its £1.5m contract terminated after an inquiry³

Companies need to have tighter data and security controls

- 86% of companies have not performed an inventory check to understand where their sensitive data is stored and how it is transmitted⁴
- 80% outsource certain security activities, but 64% fail to carry out checks before engagement with third parties⁴
- 60% have not trained their employees to detect or report suspicious activities⁴
- Just under 50% of the companies reported their system breached in the past 12 months⁴

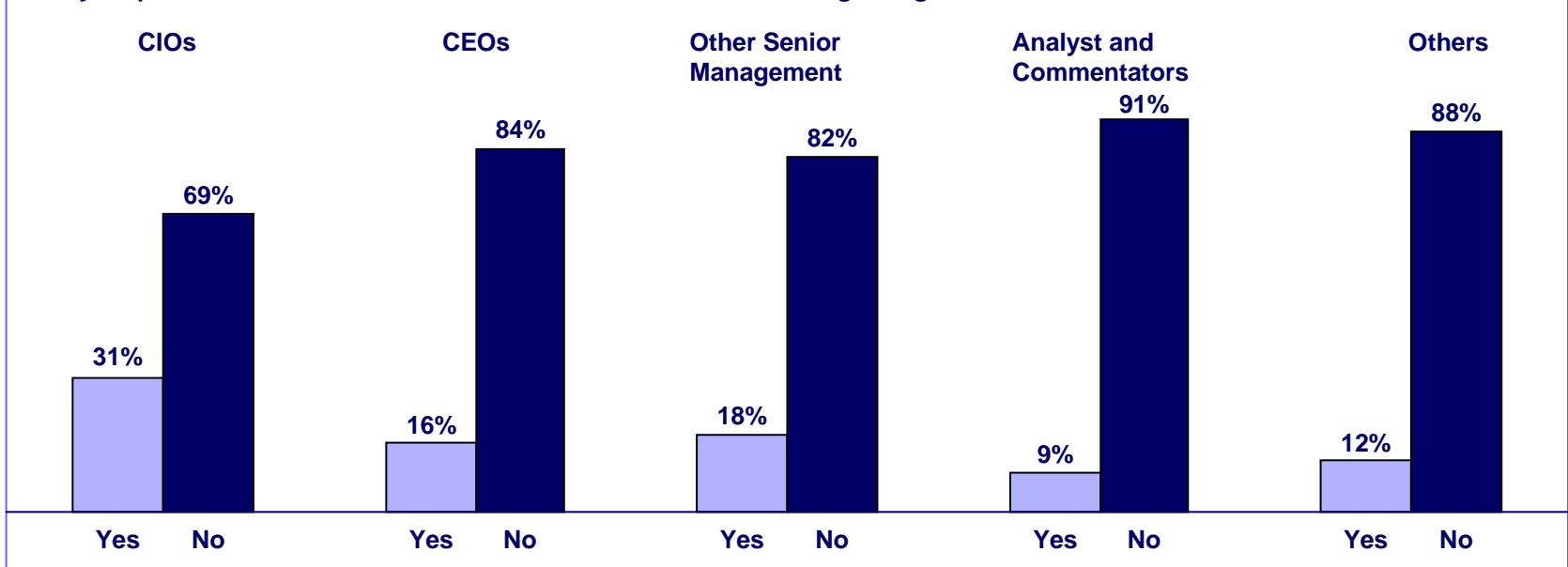
Source: 1. MSNBC – 24 Oct 2007 2. BBC – 21 Nov 2007 3. BBC – 10 Sep 2008 4. Deloitte 2007 Security Survey

The role of CIO is unclear, but if ever IT needed leadership it is now.

- Role of CIO is a source of divided opinion and confusion
 - Lack of a common language between CIO and the rest of the business
 - The right place for CIO? executive board, director board or operational committee
- Many stakeholders doubt the rationale for having a CIO at all
 - Should IT be governed by COO, individual business managers, CFO etc.

Over two thirds of the CIO are unclear of their role, other stakeholders are even less

Survey response to “how clear are the CIO and other stakeholders regarding the definition of the role of the CIO?”



Background

Challenge – A time to act

Response

Cost Challenge: take a tighter grip on costs and cash; you are going to need to manage in this way going forward.

Avoid using 'Slash and burn' approaches

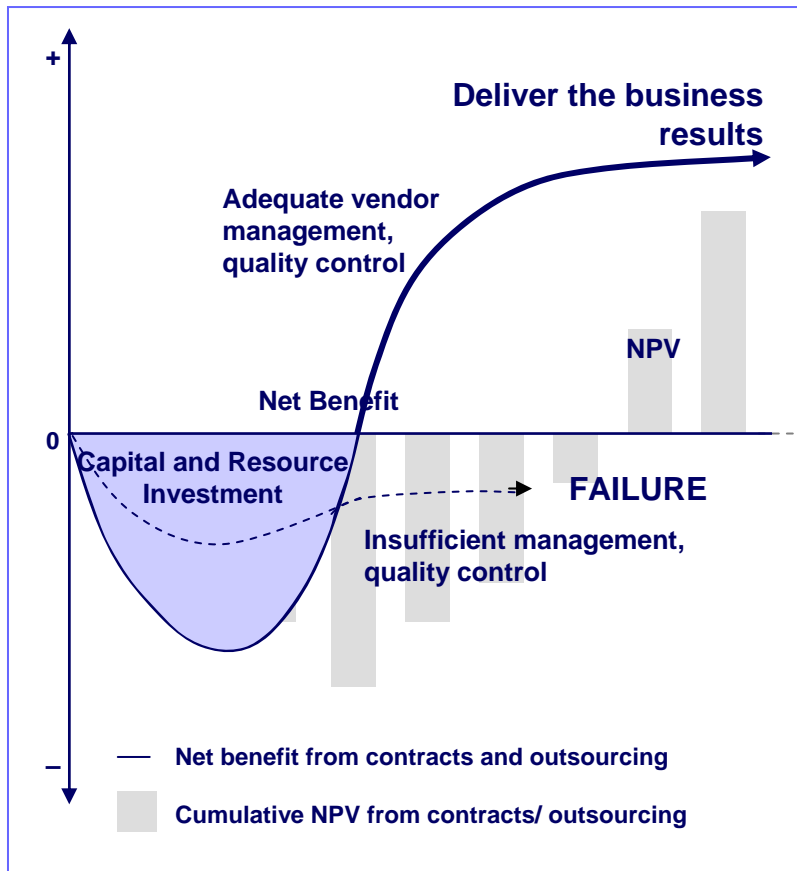
- **Changing supply but not demand:** staff redundancies without a change in work
 - Higher costs from overtime and poor quality
 - More contractors hired
- **Outsourcing without preparation:** rushed attempts to outsource
 - Hidden transformation cost
 - Poor MI to validate supplier invoices
- **Poor benefit tracking:** no ongoing tracking of cost reduction activities
 - Benefits not tracked and budgets not reflecting savings achieved
 - Enforcement costs outweigh benefits
- **Cost in isolation:** cost reduction not aligned with programmes
 - Missed opportunities to save and improve efficiency
 - Unstable low cost IT model

Reduce cost and focus on cash

- **Learn from the past,** “slash and burn” techniques results in costs returning quickly, often with a vengeance
- **Don't forget “in-year saving and cash control”** to demonstrate the contribution of IT in current environment
- **Focus on the Future,** implement a portfolio of cost reduction initiatives aligned with green strategy, improved quality and data security initiatives

Make outsourcing work: do not starve outsourcing contracts into failure by under-investment.

Under-investment in retained organisation and vendor management function leads to failure



Examples of good and bad practices

- Vendor management function with adequate skills
- Good supplier governance, risk management and quality audits
- Well defined contracts and strategic partnering
- Best practice lifecycle approach to vendor management
- Poor supplier governance post contract signing
- Vendor usage outpaces the recruitment of internal skills
- Poorly defined MI and unclear performance indicators
- Strategic and commodity vendors managed the same way

Foundation for future: persistent focus on quality.

“Developing our own solution and capability is more effective than relying on IT ”

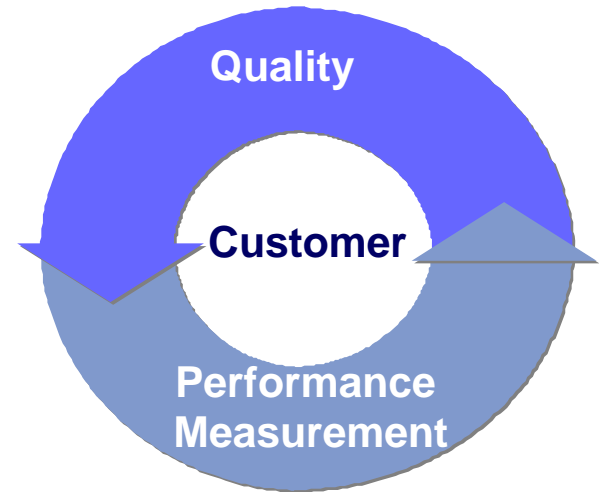
Business Manager

“The budgeting process is time consuming and goal post is always changing”

Programme Manager

“My current objectives, and tasks are not aligned nor clearly communicated”

Service Manager



Quality Improvement: Use best practices to improve process predictability and effectiveness

- Active process improvement approach vs. reactive
- Structured approach, roles and goals
- Focus on continuous improvement

Performance Measurement: Understandable and relevant metrics which assists in making business decisions

- Standard performance measures
- Track measures to improve performance over time
- Willingness to make tough decisions

Data security: piecemeal approaches will not plug the gap in data security.

Strategy and Policy

- Lack of a common data security policy
- Policies are ill suited to a digital world
- Multiple jurisdictions of privacy regulations

Organisation

- Lack of ownership / responsibility for data flows
- No culture around information security
- Limited metrics to demonstrate ongoing controls compliance

Systems

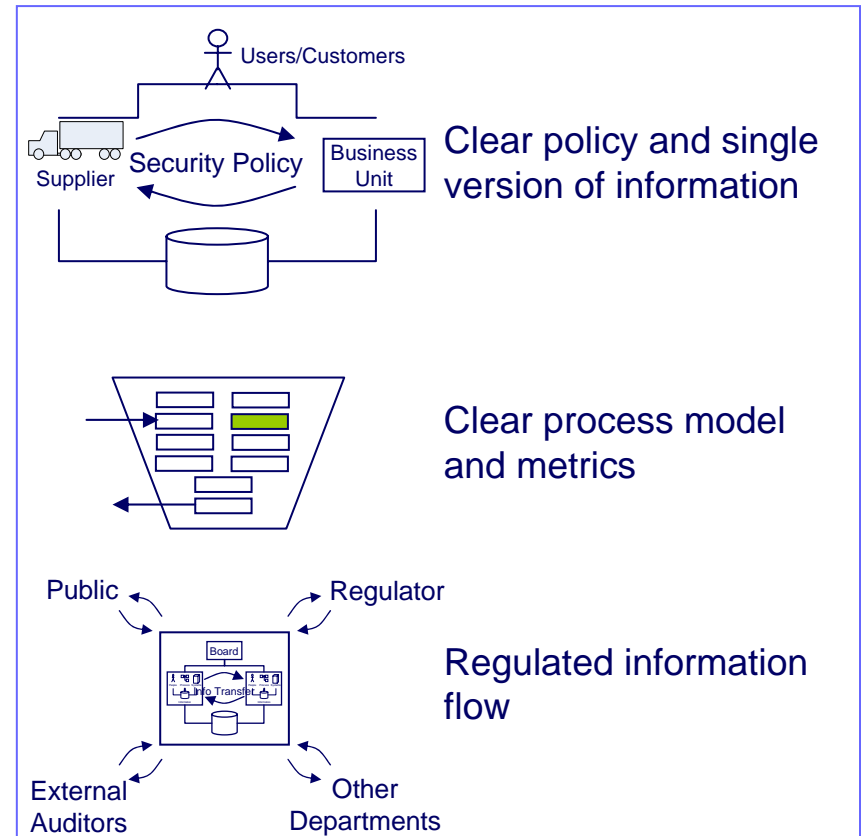
- Inadequate access control
- Sensitive data can be copied to removable media
- Silo-ed legacy systems leading insecure data transfer

Extended Enterprise

- Inconsistent implementation of privacy practices
- No clear responsibility and liability for data loss and privacy

Holistic data security and privacy will:

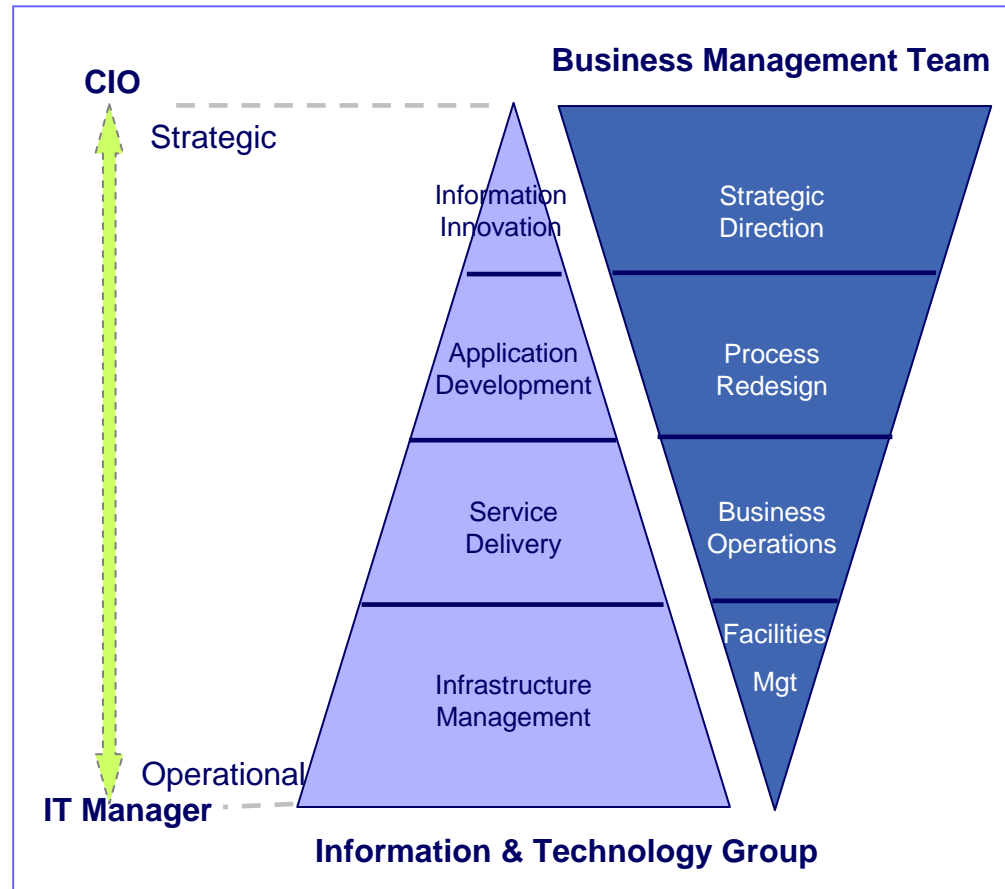
- Reduce reputational risk
- Comply with regulation
- Prevent operational disruptions



CIO role: there is no single right answer.

- Changing conditions, business models, competitive pressure and customer preference, are forcing business to re-think the role of IT
- Business is unclear on activities they want IT to support i.e. strategic direction, process redesign or business operations
- Hence many companies face a dilemma what role should CIO play
 - Technology innovator
 - Change agent
 - Facilitator
 - Operational manager

Need to balance tensions between business needs and current state of IT



Background

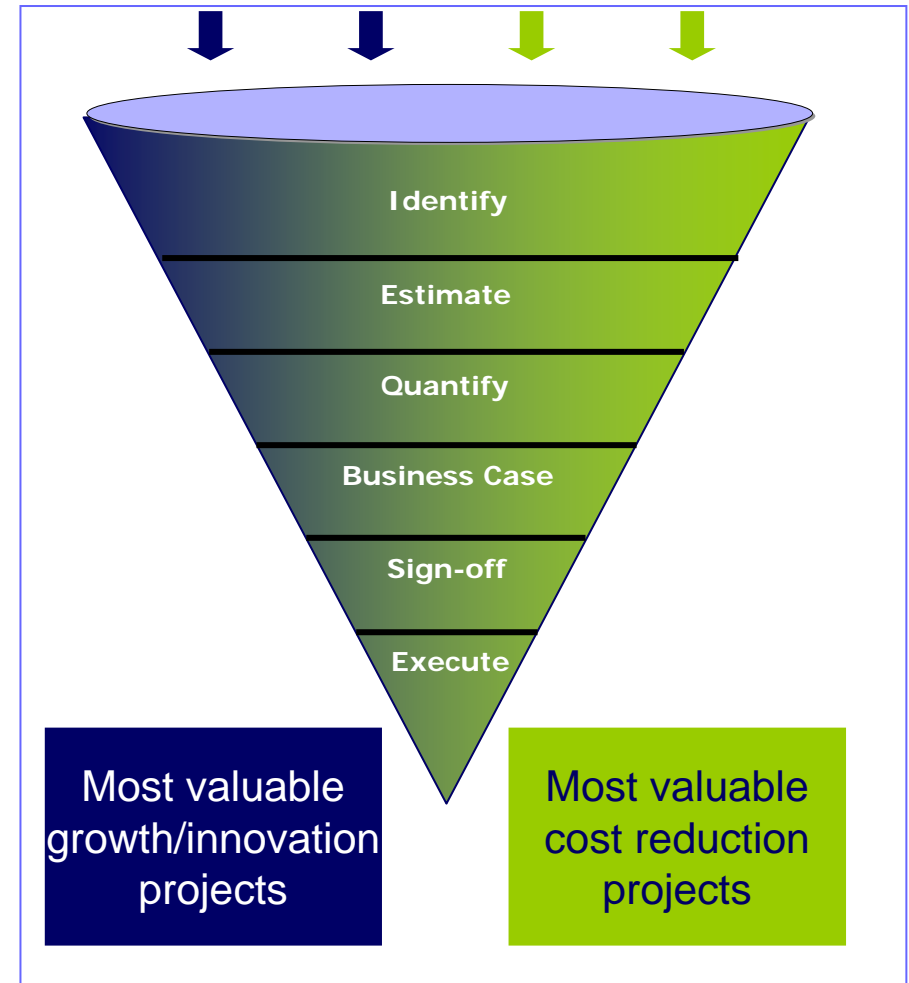
Challenge

Response – Use current situation as a catalyst to transform

Cost: relentless focus on cost - choose the right initiatives...

- 1. Identify the right principles & people**
 - Cash vs. P&L
 - Link between IT cost and financial impact
- 2. Know your current IT spend and drivers**
 - Run vs. change costs
 - Demand and supply drivers
- 3. Define the links to shareholder value & cash**
 - Quantify return on investment
 - Use shareholder value analysis
 - Cash analysis
- 4. Prioritise initiatives, align resources**
 - Act on your analyses!
 - Prioritise initiatives based on stakeholder risk and implementation difficulty

Example Initiative identification process (simplified)



... and view decisions through “a cash lens” focusing on “in-year cost” saving.

Take advantage of other's weaknesses

- Opportunity for acquisitions (e.g. Lehman Data Centre)
- Longer term opportunities vs. near-term cash

Focus on cash measures

- Cash forecasting and return on cash
- Refine credit/days receivable and payable

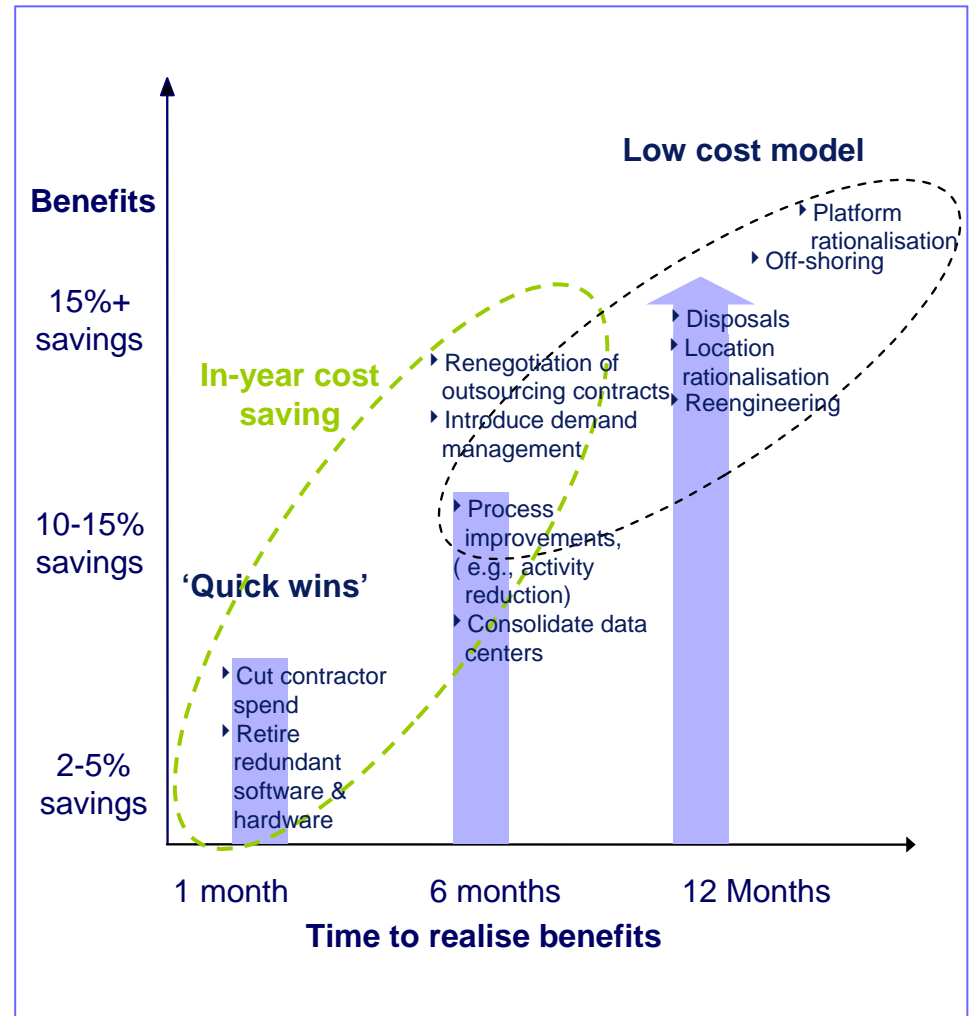
Challenge strategic and capital investments

- Buy vs. lease decisions
- Cash flow hurdle for business cases
- Sell unused assets (equipment, lease spare capacity)

Control cash disbursements

- Improve terms on purchased and leased assets (PCs, servers, leased lines, etc.)
- Increase use of low cost service delivery options (extended delivery, self service, etc.)
- Reduce service levels

Example cost reduction (simplified)



Cost: drive right behaviours through effective chargeback and manage demand.

High level service charging model

- The right IT service charging model drives the right behaviours in the Business
- It should be based on a common language for all cost types: the Business Catalogue

Business Catalogue	
Professional Services	
Apps Operations	Apps Delivery
Telecoms Tariffs	
Products and Commodities	
User Services	
Site Services	
Corporate Services	

(top level only shown)

Resulting Business behaviours

<p>Transparency</p> <p>Business managers understand what they are charged for, how the costs are determined and how they can reduce their operational costs.</p>
<p>Fairness</p> <p>Increases accuracy, fairness and organisation-wide acceptance of cost allocations.</p>
<p>Accountability</p> <p>Enforces accountability and enables business units to use resources more efficiently.</p>
<p>Improved Planning</p> <p>Provides the business with capability to plan both investment/BAU costs and differentiate between fixed/variable components.</p>

Go green: adopt a structured approach to reducing the environmental impact of IT..



..and solve operational challenges which have contributed to the current situation or inefficiencies will persist.

Organisation/Operations

- Monitor capacity and utilisation
- Integrated approach to asset management
- Use KPI which drive desired behaviors

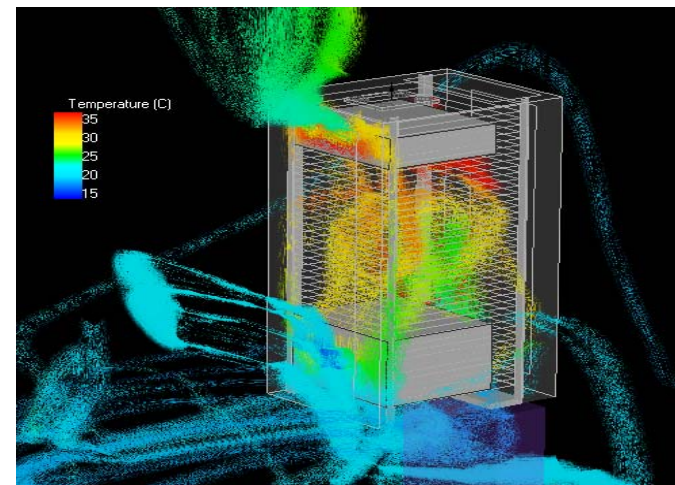
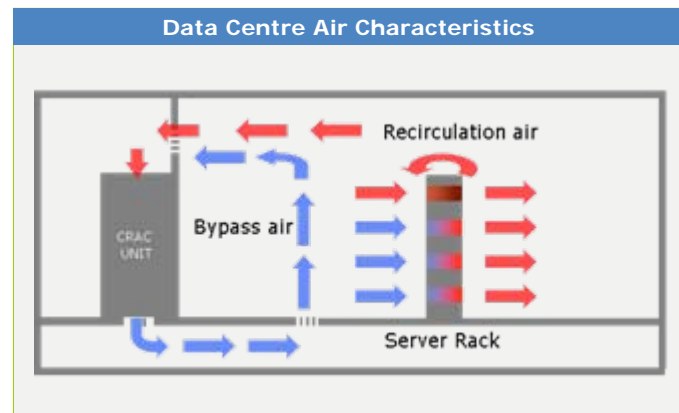
Facilities

- Improve airflow management through better design, tiling and cabling
- Use environmental monitors
- Reduce electrical inefficiencies
- Consider efficient layout such as hot/cold aisle

Technology

- Server and network consolidation & optimisation
- Use power efficient chipsets (multi-core processors, power-aware processors)
- Remove redundant applications and hardware
- Energy optimised data storage
- Use power management software

Sample Initiative: Better airflow management to reduce power in data centre



Make outsourcing work: build a retained organisation which is a product of design, not of 'grouping the survivors' ...

The WRONG kind of retained IT organisation...

- ...has "survived" the big outsource deals and not fit for purpose with inadequate vendor management
- ...simply hires CIO and senior management without structural and procedural changes
- ...is fragmented into supplier or functional silos
- ...still performs roles supposedly outsourced
- ...sides with Business - 'Business is always right' against suppliers
- ...is an expensive part of the IT cost base
- ...unclear interfaces and multiple handoff points with business and suppliers
- ...lacks governance structures and escalation mechanism

The RIGHT kind of retained IT organisation...

- ...is designed as fit-for-purpose with right mix of outsourced roles and supplier management
- ...clearly defines role, its interfaces, reporting relationships, and performance metrics
- ...is a well defined unit capable of service management and deployment
- ...drives desired supplier and internal behaviours
- ...steps up to the role of Business partner and balances business-supplier relationship
- ...controls IT cost base and reevaluates to deliver value for money
- ...single point of contact for business service and suppliers
- ...governance structure drives the prioritisation of work and manages escalation with business

... and specifically invest in building a vendor management function to drive value from sourcing relationships.

Formalise current processes

- Standardised role definitions
- Common VM lifecycle and language
- Clear ownership of relationships

Develop right controls

- Co-ordinated governance structure
- Jointly agreed KPIs

Develop capability to

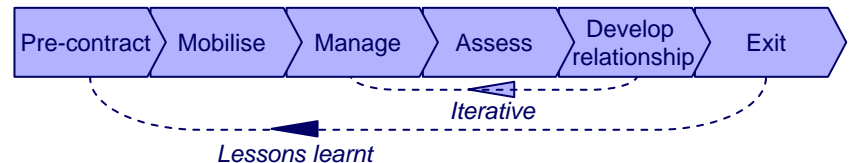
- Hold single view of multi-contract vendors
- Introduce active vendor relationship management
- Act on resulting greater leverage

Mitigate current cash challenges

- Segment vendor base on payments terms
- Challenge contracts, terms & conditions
- Limit cash through alliances and partnerships

Vendor management blueprint

1) A consistent way of doing things



2) Robust and unambiguous accountability

Standardised Controls	Standard Role Definitions	Defined Processes
<ul style="list-style-type: none"> • Artefact templates • Governance schedule • Meeting charters • Policies, standards 	<ul style="list-style-type: none"> • R.A.C.I. matrix • Define role and responsibility 	<ul style="list-style-type: none"> • Flexible where needed • Act as coaching tool • Clear escalation path

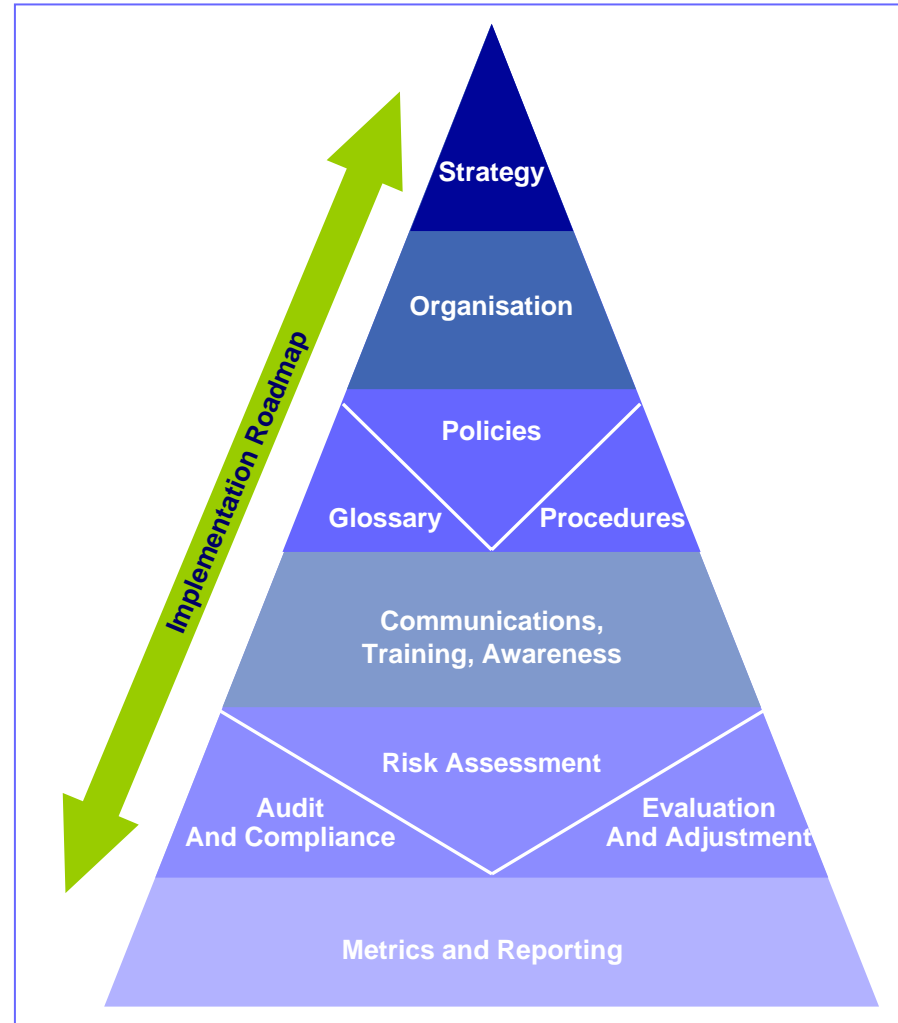
3) Leverage through “single view and voice”



Data Security: plug the gap.

- **Assess existing security exposure**, identify and prioritise current risks
- **Initiate a security management programme** sponsored by senior executives
- **Focus on quick tactical quick wins**, restrict use of removable data, use existing lines of accountability, enforce encryption and secure disposal processes
- **Develop Information security strategy & principles**, clearly define set of principles e.g. single repositories for Master Data
- **Implement a security organisation**, assign responsibility, accountability to individuals, departments and suppliers
- **Develop security metrics**, measure the efficiency, effectiveness, value and continuous performance improvement of the individual security processes

Example Security Framework (simplified)



Foundations for the future: have clear tasks with measurable performance measures.

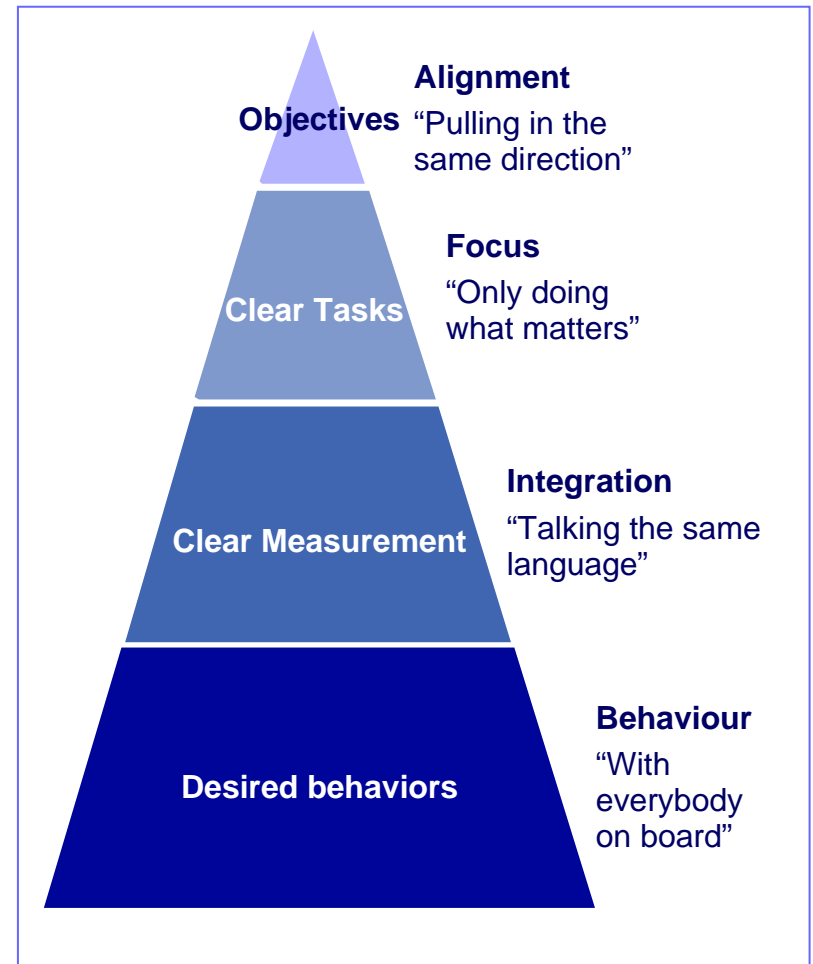
Have clear tasks with accountable owners

- **Simple, clear and consistent tasks**, if it is too complicated or cannot be articulated people will simply go around it.
- **Right Tasks** which are inline with an agreed roadmap and which are achievable
- **Clear accountability** for every task, have an accountable person and a measurable performance measure
- **Willingness to make tough decisions** to change direction or abandon an activity

If it's not worth measuring, it's not worth doing

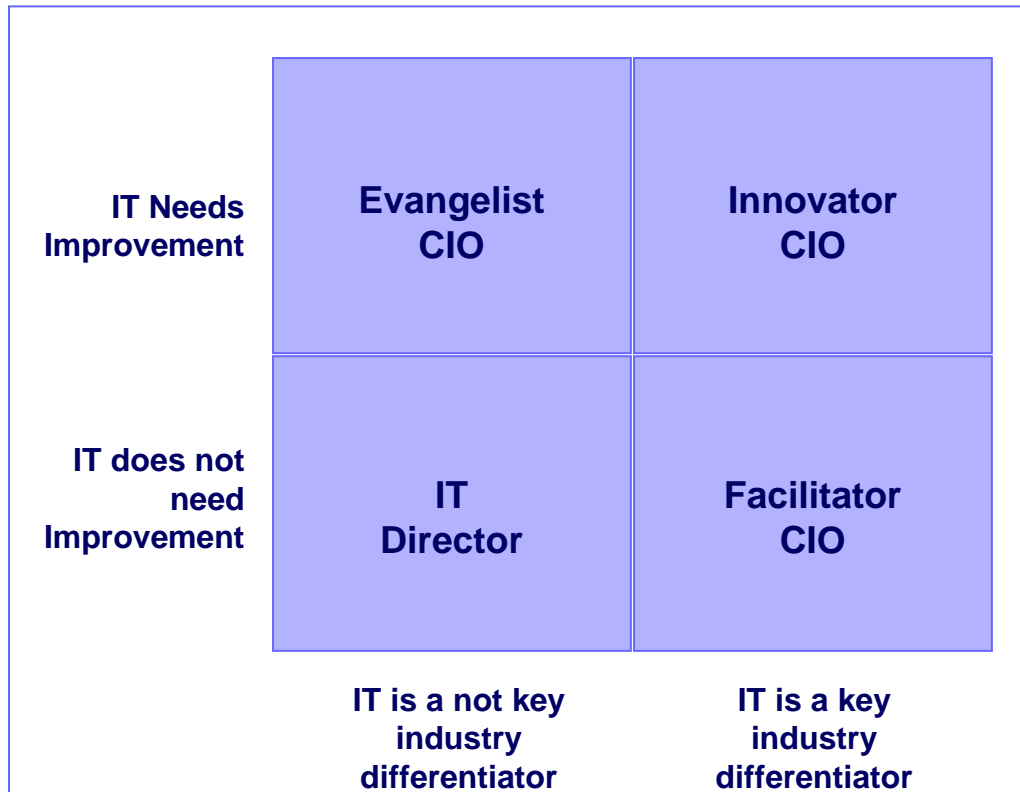
- **To measure is to know**, determine what you need to measure and create a careful blend of performance measures focussing on cost, timeliness and functionality
- **Standard performance measures** with a consistent approach to performance which can be applied to every project
- **Set right thresholds**, reject measures which aim too high or too low. IT will respond by firefighting for high measures and underperformance with low measures
- **Track Performance**, implement performance measures that enable an "apples-to-apples" comparison and to drive right behaviours

Align tasks and measurement to right objectives and drive right behaviors



CIO role: be clear on the role of the CIO given your industry dynamic and the state of your IT capability.

Role of a CIO



IT Director

- Responsible for provision of services and does not look into using IT as an competitive advantage

Evangelist CIO

- Recognises the potential of IT and raises the profile of IT
- Uses IT to improve operational performance but lacks innovation

Innovator CIO

- CIO leads by example
- Uses IT to create new products and services
- Gives company sustainable competitive advantage

Facilitator CIO

- Ensures IT skills and capabilities transcend every part of the organisation
- Makes IT an integral part of the strategy and innovation processes

Managing IT in uncertain times: the new reality.

Background

- Every penny counts, cost and cash pressures dominate
- Outsourcing is no longer seen as a panacea, we cannot simply give the problem to someone else
- Going green is on top of executive agenda. If it is not now, consumer and regulatory pressure will put it there soon.
- Data security and privacy breaches are causing boardroom jitters.
- The role of CIO is unclear, but if ever IT needed leadership it is now.

Challenge

- Take a tighter grip on costs and cash, you are going to need to manage in this way going forward.
- Going green and lean, do it in a comprehensive manner else inefficiencies will return.
- Do not starve outsourcing contracts into failure by under-investment.
- Persistent focus on quality.
- Piecemeal approaches will not plug the gap in data security.
- There is no single right answer to the CIO role.

Response

- Relentless focus on cash and cost.
- Drive right behaviours and manage demand through effective chargeback.
- Adopt a structured approach to reducing the environmental impact of IT.
- Build the right retained organisation...
- ... and specifically build a vendor management function to drive value from sourcing relationships.
- Plug the IT security gap.
- Foundations for the future – clear tasks with measurable performance measures.
- Be clear on the role of the CIO given industry dynamic and the state of IT.

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