



March 5, 2009

Redesign IT Roles To Drive IT Cost Reduction

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EXECUTIVE SUMMARY

Today's economy requires most IT organizations to reduce their costs. Ironically, the roles most essential to this process are also viewed as overhead. Several strategic roles, including architecture, vendor management, and relationship management provide the mechanisms for reducing costs, but because they don't build or maintain systems, they are viewed as expendable, rather than as enablers of savings. CIOs must redesign these roles to reinforce their authority, and they must protect them while reductions are made.

DRIVING IT COSTS DOWN REQUIRES KEY ROLES WITH THE RIGHT AUTHORITY

CIOs are reducing IT costs. An October 2008 survey of 129 IT decision-makers found that only one in four were expecting the same or greater spending in 2009.¹ To realize cost reduction, companies need to focus on three activities.

1. **Reduce labor and capital costs.** Internal staff is approximately 28% and hardware/software is 44% of the IT budget.² Reducing costs means eliminating, outsourcing, or consolidating positions, hardware/software, facilities, and organizations.
2. **Reduce services costs.** Services costs, including outsourcing, communications, and contractors, represent 27% of the budget.³ Reductions can be realized through elimination, contract renegotiations, and replacement with cheaper alternatives.
3. **Improve business and IT processes.** Cost savings are realized through automation, reduced rework, and shorter, more effective projects. Typically, realizing these benefits requires more time and greater investment than other activities.

CIOs Are Pursuing A Variety Of Cost-Reduction Actions — And Key Roles Make Them Work

From a Forrester survey in January 2009, we found that six cost-reduction actions rose to the top for 2009.⁴ These were activities that more than 60% reported they were either planning or considering (see Figure 1).

Taking these actions requires CIO leadership and oversight and the coordination of many roles in IT. Retiring apps, for example, requires architects, planners, the CIO, apps, and other groups to analyze, identify, and then retire old apps. However, these actions demand a set of critical roles that must have

the authority, scope, and focus to drive the activity (see Figure 2). These roles exist as dedicated functions in medium and large shops and as part-time roles in small shops.⁵ To enable cost reduction, the activities and associated roles are:

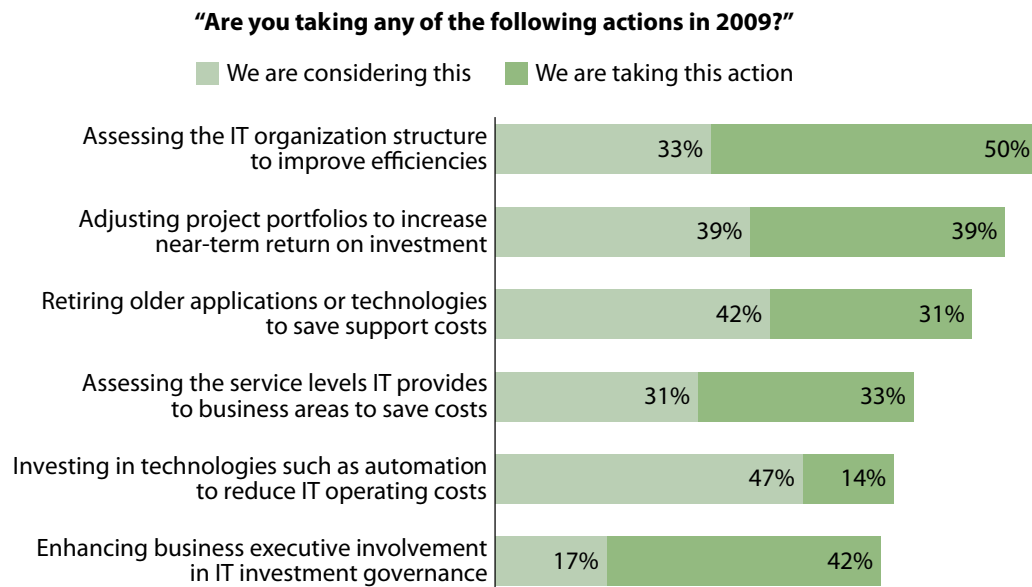
- **Assessing the IT structure.** More than eight out of 10 respondents (83%) stated that they are either planning or considering assessing IT's structure in 2009. This category received the highest percentage (50%) reporting it was already planned for 2009. CIOs must lead the assessment of their shops to determine the efficiency of their structures, processes, and culture. Relationship managers (RMs) must provide the business interface to ensure that the new structure is in sync with business priorities. Planners must treat this as another high-impact project and ensure that it receives sufficient resources.
- **Adjusting portfolios.** Nearly eight out of 10 (78%) reported that they were planning or considering changing project portfolios to increase near-term return on investment (ROI). RMs and planners play the most important roles here. Changing priorities to reduce costs requires business compromises. RMs must make the case for these changes while simultaneously speaking on behalf of the business units they support.⁶ In addition, planners need to adjust their tools and techniques to increase the importance of cost-saving activities. For example, the weight of cost-related criteria should be increased relative to growth or responsiveness when using scoring models.⁷
- **Retiring legacy systems.**⁸ Roughly three-quarters responded that they planned or were considering retiring applications or technologies in 2009. Legacy system selection, retirement strategy, and oversight for execution are the responsibility of architects. Vendor managers have a less critical role but must work with vendors to ensure any changes can be supported by the vendors and that contractual obligations are either met or renegotiated. RMs ensure that legacy system changes do not endanger critical business operations.
- **Assessing service levels.** About two-thirds stated that they planned or were considering assessing IT service levels for the business. Demand, vendor, and relationship management become the critical roles here. Demand management must work with RMs to determine which service cuts will result in the greatest gain and least pain.⁹ RMs again must negotiate compromises with business leaders. Vendor management is involved if vendors are either providing the services or will pick up service support through some form of outsourcing.
- **Investing in automation technologies.** Six out of 10 stated that they planned or were considering automating IT and business processes to reduce costs. Many low-level functions such as software distribution and password resets can be automated with modern tools, and some can be run by end users with little IT support. Architects need to ensure that automation projects and technologies are consistent with standards and the technology direction of the organization. Much of the execution of automation projects will be done within apps and infrastructure organizations.

- Increasing business leader involvement in investment decisions.** Six out of 10 stated they planned or were considering encouraging business leaders to take greater ownership of IT investment decisions. Relationship managers, in conjunction with the CIO, must ensure that business leaders understand the implications of their decisions for IT and participate in prioritizing cuts. IT must provide the proper information and decision-making framework for the business to make these calls.

How CIOs Should Clarify — Or Redefine — The Scope And Authority Of Key Roles

Many of the critical success factors show the changing nature of these roles in a cost reduction environment (see Figure 3). But their scope and authority may have been set when budgets weren't under as much pressure and IT focused on maximizing delivery instead of minimizing cost. CIOs should assess these functions in light of the need to drive cost reductions by managing business demand, changing how projects are prioritized and executed, and optimizing vendor contracts across IT.¹⁰

Figure 1 Cost Reduction Actions For 2009



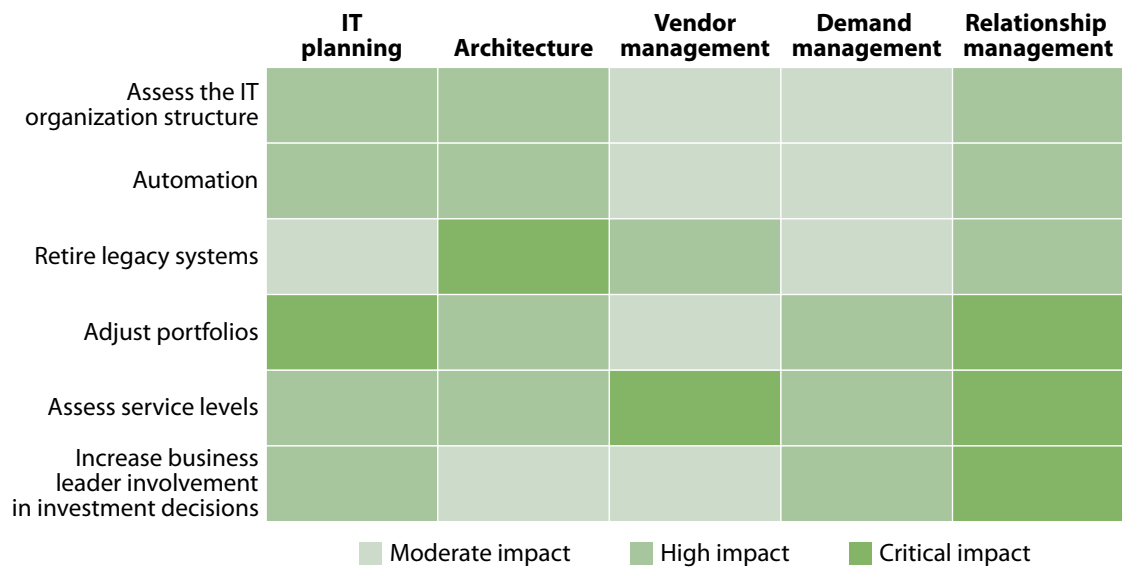
Base: 46 enterprise IT decision-makers

Source: January 2009 Global IT Budget Priority Online Survey

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Source: Forrester Research, Inc.

Figure 2 Key Roles In Reducing Costs



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Source: Forrester Research, Inc.

Figure 3 Responsibilities Of Critical Roles In Reducing Costs

| Function | Role in cost reduction | Critical success factors for cost reduction |
|-------------------------|--|--|
| Architecture | <ul style="list-style-type: none"> Force the definition of standards and policies for consolidation Track compliance to standards Define technology direction that supports cost reduction | <ul style="list-style-type: none"> Clear decision rights Project work to encourage compliance Operationally credible architects |
| Planning | <ul style="list-style-type: none"> Set up and manage prioritization mechanisms Provide information for investment decisions Maintain tight relationship with relationship management | <ul style="list-style-type: none"> Project initiation process through which all projects flow Business educated on impact of its decisions Mechanism established for business prioritization of IT investments |
| Vendor management | <ul style="list-style-type: none"> Manage strategic vendors Use policies and consulting to assist with management of nonstrategic vendors Identify lower-cost resources | <ul style="list-style-type: none"> Tight relationship with architects Negative consequences for ignoring vendor management policies Vendor managers with strong negotiating skills |
| Relationship management | <ul style="list-style-type: none"> Prioritizing IT investments on behalf of business and IT leaders Educate business leaders on the cost of their decisions Educate IT on the business consequences of IT actions | <ul style="list-style-type: none"> Senior level of visibility and business involvement Relationship management function explicitly measured if part-time role Relationship managers with business process knowledge |
| Demand management | <ul style="list-style-type: none"> Tracks supply of people from internal and external sources Tracks current and future demand for people | <ul style="list-style-type: none"> Tools and processes to track future demand and supply Tight relationship with vendor management for sourcing |

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Source: Forrester Research, Inc.

RECOMMENDATIONS

REASSESS FUNCTIONS CRITICAL TO MANAGING IT'S BUSINESS

The roles discussed in this report have evolved within an environment that has recently changed. Architects took on technology research because more innovation was required. RMs ensured local needs were met to support growth. Because of the economic downturn, doing more with less means CIOs must reassess how these roles operate. The resource base is shrinking. Business leaders may agree with the need to reduce IT costs, but they will be hesitant to give up their specific services. This leads to the most valuable but difficult change that these roles can facilitate. They must shift the emphasis from local services to consolidated ones that support the enterprise. To make this happen, CIOs need to change how these roles are measured and rewarded, the deliverables they produce, the level of oversight they provide, and in some cases, the people who fill them.

WHAT IT MEANS

UNLEASHING COST REDUCTION CAN IMPEDE FUTURE GROWTH

Functions such as vendor management and architecture are increasing both in power and their focus on cost reduction. Responsibilities such as forging strategic vendor relationships and innovating with technology have become less important. Over time, this new focus will become institutionalized as the metrics, processes, and attitudes will reinforce cost reduction over everything else. Consolidation will be baked into personal objectives. Processes such as project initiation will emphasize increased ROI requirements. Global standards will become the default choice over local ones. And those that are good at this will thrive while others move on. Unfortunately, when times change and growth is required, it will be difficult and time-consuming to retool this machine.

SUPPLEMENTAL MATERIAL

Methodology

Forrester's January 2009 Global IT Budget Priority Online Survey was fielded to 46 enterprise IT decision-makers from our ongoing IT research panel. The panel consists of volunteers who join on the basis of interest and familiarity with specific IT topics. For quality assurance, panelists are required to provide contact information and answer basic questions about their firms' revenue and budgets.

Forrester fielded the survey during January 2009. Respondent incentives included a summary of the survey results.

Exact sample sizes are provided in this report on a question-by-question basis. Panels are not guaranteed to be representative of the population. Unless otherwise noted, statistical data is intended to be used for descriptive and not inferential purposes.

If you're interested in joining one of Forrester's Research Panels, you may visit us at <http://Forrester.com/Panel>.

ENDNOTES

- ¹ In October of 2008, Forrester surveyed 129 IT decision-makers to find out how they anticipated their plans and budgets would change in 2009, and how they planned to react to these changes. Forrester found that only about 25% of organizations were planning for equal or greater IT spending in 2009. Source: Forrester's October 2008 Global Economic Downturn Online Survey.
- ² Source: Enterprise And SMB IT Budgets And Spending Survey, North America, Europe, And Asia Pacific, Q4 2007.

- ³ Source: Enterprise And SMB IT Budgets And Spending Survey, North America, Europe, And Asia Pacific, Q4 2007.
- ⁴ In January 2009, Forrester surveyed 46 global IT decision-makers to find out how their plans, budgets, drivers, and relationships have changed since 2008 in reaction to economic realities. Forrester found that six cost reduction activities were top of mind for 2009: assessing IT's structure; adjusting portfolios for greatest near-term investment; retiring older applications; assessing IT service levels; investing in automation; and benchmarking IT. Source: Forrester's January 2009 Global IT Budget Priority Online Survey.
- ⁵ IT shops within small and medium-size businesses (SMBs) are less standardized, more constrained in capacity, more oriented toward the utility archetype, and infrequently view technology as a differentiator. See the April 15, 2008, "[Survey Results: Size Changes How IT Operates](#)" report.
- ⁶ Refocus marketing efforts on the near term. Your customers and prospects are focusing their efforts on the short term and delaying projects with longer payback periods. See the April 23, 2008, "[Technology Marketing In The Challenging 2008 Economy](#)" report.
- ⁷ Given the current economic turbulence, the CIO and his or her staff must work with their business counterparts to revisit and revise their portfolio of projects. Necessity may dictate tough decisions about which projects to undertake, which projects to defer to a later time, and which ones to cancel or put on hold if they're already under way. This can be a chaotic process or a rational one, and IT should provide a framework for steering committees to make these decisions more rational. IT can accomplish this by characterizing in-queue and active projects by the nature of their benefits and the implications of canceling them. See the October 29, 2008, "[Adjusting Your Project Portfolio For A Tough Economy](#)" report.
- ⁸ Whichever description fits, firms considering migration must prioritize the work based on the business value, examine the available replacement options, and make a "right-fit" decision that will stand up to business scrutiny. See the September 12, 2006, "[Got Legacy? Migration Options For Applications](#)" report.
- ⁹ IT demand management is defined as a three-pronged approach that: 1) aggregates business demand for all of IT services, both operations and investments; 2) represents to the business IT's delivery of resources against that demand; and 3) works with all IT leadership to optimize and align IT's delivery in answer to business' demand. See the October 10, 2008, "[IT Demand Management And The PMO](#)" report.
- ¹⁰ CIOs are in a unique position to drive business change. Their responsibilities span the enterprise, and the systems they manage are critical to nearly all business processes. See the September 3, 2008, "[How CIOs Can Drive Business Change — Part 1](#)" report.