

Surviving 2009 – A Note to CIOs from Battiston Consulting

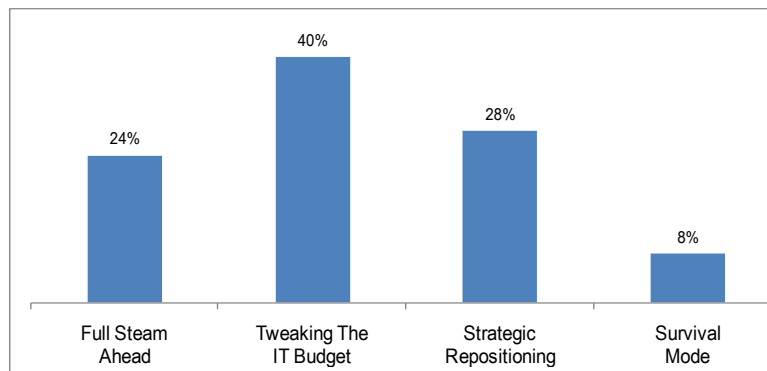
4 March 2009

We have talked to 25 CIOs about how best to survive 2009 over the last month, and have put together this short note where we have analysed what strategies CIOs are adopting, and have crafted a plan of attack - which might be helpful as you prepare budgets for the upcoming financial year.

Back in the 1990 recession a CIO from the oil industry said to us: *“Ah well, IT has always been a bit of a boom and bust game”* – referring to how IT and an organisation’s fortunes are tightly linked. The boom and bust cycle is again evident in 2009, as organisations that are exposed to the equity markets, or have a heavy debt load, are winding back their levels of business investment – and their IT spend.

In our interviews with CIOs, we see that organisations in the mining, manufacturing and financial services are doing it tougher – whereas organisations that are less exposed to economic cycles, such as utilities, government and some niche retail organisations have been less affected to date. Figure 1 below shows the different strategies that CIOs are adopting in response to the prevailing economic conditions.

Figure 1: CIO Strategies for Coping in 2009



Full Steam Ahead

It appears those organisations that have greater revenue certainty, limited exposure to the equity market and no debt worries (most obviously government agencies) are running full steam ahead and focusing on delivering their programme of work.

For organisations less affected by the global financial crisis, this is an excellent opportunity to hire good people at manageable rates, and negotiate favourable supply contracts with key suppliers. Organisations that are buying are finding it is easier (and cheaper) to hire good people. Suppliers are very keen to negotiate new service arrangements, and we have also seen several organisations negotiate contract extensions ahead of time. Exercising a win-win philosophy, these organisations are offering several years of extended revenue certainty for the

supplier and in return are asking for the supplier's windfall benefit (reduced cost, effort and risk associated with participating in an RFP) to be returned in the near term.

Tweaking the IT Budget

Other organisations are impacted to a greater extent and are tweaking their IT budgets. These organisations are making more disciplined choices about which projects to fund, and introducing more rigorous measures of the worth of new and ongoing projects. As the recruitment markets free up, an increasing number of staff are being targeted with performance improvement plans. Choice contractors are being offered permanent roles. Service contracts are being dusted off to see whether the rates being offered are still attractive in 2009 – particularly for mobile and data network costs. Stronger project discipline is being exerted to de-risk projects (including carving projects into gated phases), and more attention is being paid to what can be learned as a result of post implementation reviews.

A key issue to consider is whether tweaking the IT budget is going to be enough – or should you be taking the next step and doing some Strategic Repositioning.

Strategic Repositioning

Many of the other CIOs interviewed are making some sensible and sustainable changes, and using the opportunity to do some strategic repositioning. In addition to the earlier ideas, organisations in this category have not replaced contractors who have left, and some have made up to 5% of their permanent staff redundant. Roles that are under the microscope seem to be those that expanded during the good times, but are now less affordable in the not-so-good times.

Many CIOs are working closely with their business colleagues to determine which development projects should continue, and which should be stopped. By sharing the problem (business and IT fingerprints on the revolver), CIOs are getting their business colleagues to collectively agree which projects are most valuable to the organisation – and driving the IT plan with these business priorities. Ideally they can create a joint Business IT Plan for 2009 – pulling the business and the IT plans together into one. It is a great opportunity to build bridges in reacting to the common enemy. One CIO said the situation is similar to “achieving world peace because Mars has attacked”!

Several CIOs who are in this category strongly made the point that the *sun will still come up tomorrow*, and that their drive continues to be to deliver those projects that are most worthy to their organisation. Yes, they need to survive 2009 – but their next most important job is to position their organisations for 2010 and beyond.

Other tips from organisations in this Strategic Repositioning category include driving down accrued leave levels and negotiating away any CPI or Cost of Living Allowances (COLA) in their

contracts. Those organisations which have asked their staff to take leave haven't seen a big backlash, but they have made immediate P&L benefits. One CIO said that "staff would have to be blind not to know there is a crisis!"

Survival Mode

Several organisations are in survival mode, being hard hit by a lack of demand for their industrial products. Some of their business customers are just "walking away" from their contracted commitments. Other organisations are having trouble funding debt. These difficult circumstances mean most of their project IT spending has been pushed from 2009 into 2010 or 2011. This has led to an almost complete reduction in contractor numbers, and permanent staff redundancies as well. Also, capital spending on infrastructure has been reined in - including planned delaying technology refresh cycles.

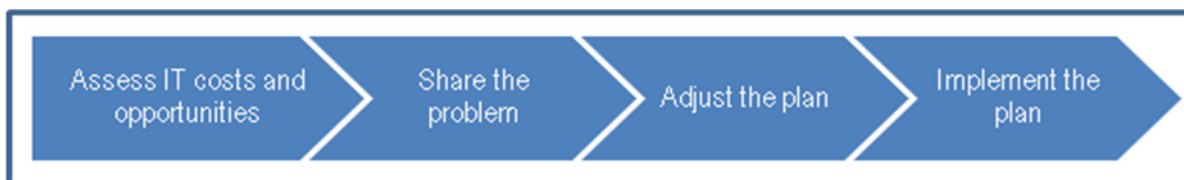
The CIO at one of these companies said that the only capital he had was to respond to an emergency if "something breaks". These CIOs are also asking their suppliers to make major changes to their services contracts – and the suppliers are responding with service scope changes that they are not contractually obliged to do. When times get tough, a good relationship with your key suppliers pays off.

The Way Forward

Well, given many of us have lived through the IT downturns in the 1990 period, and the 2001 period (and maybe even the 1983 period) – we know that the *sun does still come up tomorrow*. Yes, there have been some organisations dramatically cutting their level of IT spend – but the CIOs we talked to are not reacting as badly as the press may have us believe. It is about keeping the faith, and maintaining careful stewardship of the IT budget in 2009.

Perhaps there is a simple 4 step process (Figure 2) to follow in keeping the faith in 2009:

Figure 2: Keeping the Faith in 2009



In assessing the IT costs, we suggest a simple model to analyse IT costs between discretionary and non-discretionary (i.e. fixed) costs. Discretionary costs could be turned off quickly, whereas non-discretionary costs cannot be turned off as easily. Some discretionary spend is more easily

turned off – so identifying the most likely candidates is important. This means assessing projects, functions, service offerings, and the IT organisational structure.

It is also just as important to consider the opportunities – in order to make the very best out of a difficult situation. Brainstorm the best opportunities that might include:

- Better people (e.g. swapping contractors over to permanent roles);
- Better deals (e.g. re-negotiating key contracts now with an extension);
- Better customer experience (e.g. re-jigging the service desk experience for your customers);
- Better delivery (e.g. de-risking projects, strengthening PMO and project governance, and learning from post implementation reviews);
- Better IT efficiency (e.g. checking licence numbers, trimming back support hours, distributing pay rises only to the top performers, closely managing poor performers, taking a hard look at the overheads and restructuring the team); and
- Better alignment by getting closer to your business customers (e.g. facilitating what projects could add the most value to the organisation).

Work out how you can best share the problem within the IT function, but also to get buy in from senior business colleagues. Consider facilitating a session with the executive management team to have them work through what the business needs to focus on now (“Mars is attacking”), but also what is needed to better position your organisation for 2010 and 2011. Ideally this should be a role for the overarching IT Steering Group if you have one – to create the Business IT Plan. How can you align your IT budget to what is most important to your business colleagues, using the analysis of costs and opportunities from step 1. One CIO said that in times of duress management asks many more questions about “possibilities and options” – so be prepared to have the data at hand, and think through the possible business scenarios and IT options.

Adjust the IT plan for the next 12 – 18 months. Work with your colleagues to figure out what needs to be done, and construct a briefing that is compelling for people in the IT organisation. Brief your line managers on the key business / IT messages. Match the communication with what is happening with the wider organisation – making the point that IT’s job right now is to help the organisation survive and prosper during (and beyond) these difficult times.

And then implement the plan. It may not be perfect, and you might need to re-adjust the plan in 3 – 6 months if times get tougher, but you need to be acting fast.

And a final tip from one CIO (who reduced costs significantly in October 2008) who said “act early and aim to do it once – but don’t beat yourself up if you don’t get it 100% right”. All in all, 2009 will be difficult – but we need to make sure that we keep the faith and put ourselves in as good a position as possible for 2010 and beyond.