Managing IT in a downturn:

Beyond cost cutting

Article at a glance

As the economic slowdown intensifies, companies are looking for ways to cut costs, and IT budgets are a prime target.

Rather than implement across-the-board cuts, managers should take a more integrated view of how IT is used throughout the business.

Targeted IT investments can make operations more efficient and increase revenues, delivering returns larger than simple cost-cutting measures typically do.

Looking to slash your IT investments? Consider the possibility that targeted ones might generate savings and revenues exceeding what you could save through cost cutting.

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Economies around the world are slowing down, and companies are looking for ways to trim spending and improve the bottom line. Although information technology often represents a small fraction of the corporate cost base, senior executives inevitably turn their attention to IT budgets for substantial contributions. Yet in some instances, IT investments deliver more value to a company's top and bottom lines—by creating new efficiencies and increasing revenues—than any savings gained from traditional IT cost cutting.

IT has come a long way over the past decade. Budgets grew rapidly during the dot-com boom and the run-up to Y2K, then declined drastically when the bubble burst. Over the following years, CIOs, working with business unit leaders, improved the performance of IT departments by streamlining application portfolios, reducing infrastructure costs, improving governance, consolidating vendors, and outsourcing many activities.

Much has changed across the business landscape as well. Technology now meshes tightly with operations in ways that weren't possible a decade ago; the apparel maker Li & Fung, for instance, uses IT to manage supply chains with a network of over 7,500 different suppliers. At the same time, e-business, once a buzzword, now forms a part of the corporate status quo. IT capabilities have fostered new sales channels, defined new customer segments, and even helped create new business models.

These factors make reductions in IT spending more complicated than ever. Simplistic cuts, applied across the board, may endanger critical business priorities from sales support to

customer service. That potent message should resonate even among corporate officers anxious to find quick savings.

CIOs, of course, should continue to make their operations more efficient and to reduce costs, especially in areas that show signs of bloat. Discipline tends to slip during a lengthy upturn in spending such as the one that has occurred in recent years. Reducing pockets of unproductive expenditure will bring savings that help meet corporate cost targets.

Still, except in the most dire circumstances, turning off technology investments during a downturn is counterproductive. When business picks up, you may lack critical capabilities. Besides, many technology investments can improve profitability in the short to medium term.

When business and IT executives jointly take an end-to-end look at business processes, the resulting investments can have up to ten times the impact of traditional IT cost reduction efforts (Exhibit 1). The trick is to scan for opportunities—such as improving the customer experience, reducing revenue leakage, and improving operating leverage.

Exhibit 1

The bigger opportunity

Investments in technology-enabled business processes can deliver up to ten times the impact of traditional IT cost reduction efforts.

Impact on run-rate EBIT[1] (illustrative examples), %

	Impact	
Traditional IT cost reduction (15%)	0.5	Typical IT cost levers, including demand management, portfolio rationalization, and outsourcing/offshoring
Merchandising investments	1–2	Improve decision support for merchandising at retailers
Supply chain investments	3–4	Optimize supply chain process with streamlined systems
Better pricing	3–5	Reduce revenue leakage from unnecessary discounting and poor sales force management

[1]Earnings before interest and taxes; assumes run rate of 6–18 months (timing to achieve run-rate impact varies across examples).

Creating impact with technology

Such an effort begins with a survey of operations for areas likely to produce near-term revenue and efficiency gains. In our work across a variety of industries, we have identified a number ways technology investments can have a substantial impact (Exhibit 2).

- *Manage sales and pricing.* Develop insights into customer segments and improve pricing discipline to increase revenues without increasing prices.

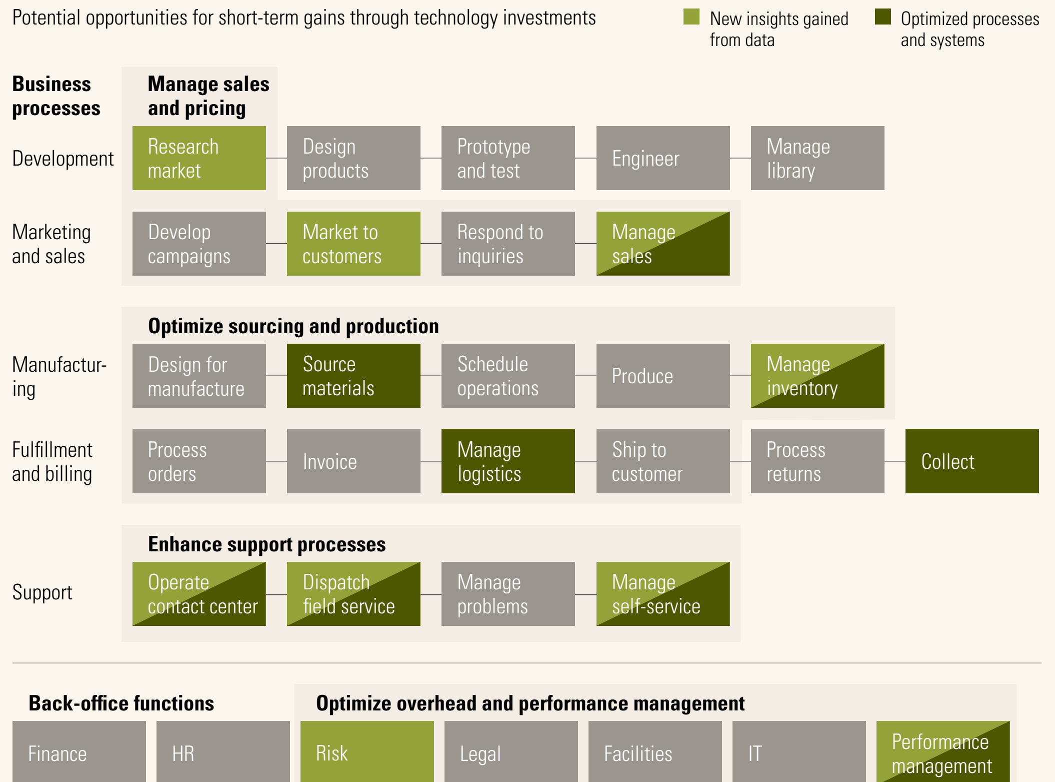
- *Optimize sourcing and production.* Rethink supply chains and logistics to improve the scheduling of deliveries and inventory management.

- *Enhance support processes.* Improve the management and use of field forces (such as installers and field technicians) and of customer support centers.

Exhibit 2

The sweet spots

Across industries, technology investments can have a substantial impact in select areas.



- *Optimize overhead and performance management*. Sharpen awareness of risk exposure and improve decision-making and performance-management processes.

To extract value from these opportunities, our experience shows, companies must make managerial improvements in two areas.

Developing new insights

Few companies have successfully capitalized on the explosion of data in recent years. Often this information, residing in separate IT systems or spread across different business units, has never been mined for insights that could add value. Small teams of business and IT staffers can find opportunities by combining a detailed understanding of business processes with straightforward analyses of consolidated data sets. When such teams use the data to compare best practices across regions or to identify under- and overserved customers, for example, they can identify hotspots of revenue leakage.

Optimizing processes

As IT becomes tightly integrated with processes, breaks in workflows often get built into systems and diminish productivity. Shining a light on these areas with an integrated view of operations and technology may well surface problems, which often involve outdated processes, manual steps, redundancies, and bottlenecks. An 80/20 approach can highlight a modest number of activities that, when corrected, deliver a disproportionate

amount of value. Companies can usually apply these fixes in short order. At times, new systems may be needed, but modest enhancements or targeted work-arounds often suffice: an additional error check in a credit application, for instance, can reduce the need to rework incorrectly entered data. Adjustments to workflow processes may also promote greater adherence to corporate sales-discounting and bidding policies.

Applying these methods

Applied in high-opportunity areas, these two levers can not only make a short-term contribution to earnings but also build a foundation for future performance. Two cases illustrate this approach.

Revenue and pricing discipline

Maximizing revenues is always important, but even more so during a downturn—particularly when revenues can be increased without raising prices. For many companies, especially those with complex pricing in business-to-business transactions, poor pricing discipline is endemic. Since most pricing regimes depend on IT systems for the process and the workflow, these systems can play a central role by capturing lost revenues.

A telecommunications company has started to attack such issues by building high-value but inexpensive links between multiple silos of information. Contracts databases, sales funnels, compensation systems, CRM data warehouses, and other siloed systems formerly spanned a range of the company's business-focused products. Just centralizing this information in one accessible repository was a big step forward: it facilitated analyses that uncovered opportunities to improve revenues by controlling unnecessary discounts and by harmonizing inconsistent pricing policies across different products and regions. The value came from integrating information flows at key points, not from creating new systems.

Introducing this degree of transparency also increased the team's credibility with the sales force. Better information flows made it clearer which practices resulted from uncontrollable market forces and which of them the sales reps could truly control, allowing the company to evaluate them on a comparable basis.

The telco began closing the pricing gaps first by developing and testing new procedures and then by scaling up new metrics, as well as new performance-management and compensation systems. These linked the new procedures all the way from frontline salespeople up to the president of sales.

Technology played a critical role. The project team consolidated information from various product systems into a unified reporting database and developed simple pricing scorecards to make information more transparent and visible across groups. Tools linked the compensation of the sales reps to their performance on pricing by comparing their discounting and pricing records with comparable averages. Simple dashboards managed the performance of the sales force at each level, cascading up to the president of sales.

These policy and IT changes helped the telco to reduce its price leakage and to increase its revenue on new contracts by 3 to 5 percent, which translated into a margin expansion of 15 to 20 percent or more.

Employee productivity

Another critical goal during a downturn is getting more "bang for the buck" from employees—for example, by increasing a company's operating scale, making processes more efficient to reduce rework, and stepping up efforts to automate manual procedures. IT is essential to all of these efforts.

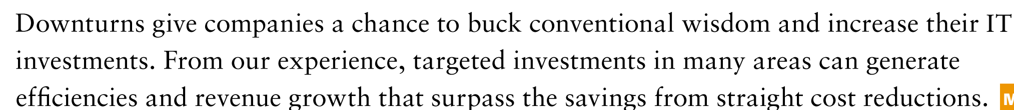
Targeted technology investments helped one retail bank to increase the productivity of its branch office sales forces. The bank needed to adopt a more systematic approach to winning new accounts and to improve its cross-sales to existing customers. Technology helped to increase the hit rate for sales leads from marketing staffers and to create a more robust, "industrialized" way of handling referrals from tellers. These improvements allowed the company to convert such leads more quickly and to raise its revenues per employee.

The bank had relied heavily on manual, paper-based processes to identify and distribute leads, customize offers, and close deals. There were islands of automation at points throughout the sales process but no end-to-end view of its workings or how technology could improve them.

A team of business and IT staffers reviewed branch operations and quickly identified areas where focused action could produce substantial gains. The distribution of leads to the sales staff was automated, and more of them were directed to the reps with the best performance in previous campaigns. The tracking of customer outreach efforts and the keeping of sales conversion histories were automated as well, which made sales efforts more efficient and helped the company to avoid hitting clients with multiple offers. To give sales reps a full view of a client's bank relationship at the click of a mouse, the lead-management system and the enterprise CRM platform were integrated. The system could supply "next-best offers" for each customer, as well as call scripts to help reps push new products. Data entry after each closed sale was streamlined, and vital information that could be used to model strategies for future conversions was captured more fully and efficiently.

After making these investments, the bank reported that it was on track to double the number of daily branchwide sales calls, improve its conversion rates, and significantly raise productivity. Uniform sales procedures, applied throughout the system, were expected to yield further efficiencies.

Downturns give companies a chance to buck conventional wisdom and increase their IT investments. From our experience, targeted investments in many areas can generate efficiencies and revenue growth that surpass the savings from straight cost reductions. MoBT



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