



Practical Frameworks for Managing the Cost of Information Technology Management

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CPT Global

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This Session

In this session we will provide an overview of how an agency or organisation can develop and implement a **Sustainable IT Efficiency Strategy**

We will cover:

- What are the key drivers to implement IT operational efficiencies
- What are the key challenges in implementing IT operational efficiencies
- Most common areas of inefficiencies and poor performance in the production environment
- Most frequent root causes for these inefficiencies in production
- Where do you get the best ROI
- The Sustainable IT Efficiency Strategy

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In this session we will provide an overview of how an agency or any organisation can develop and implement a Sustainable IT Efficiency Strategy that will reduce their TCO.

Our focus in this presentation will be on operational or BAU costs.

The approaches for cost reduction are based on a number of assessments and cost reduction exercises CPT has performed for organisations both in Australian and Internationally.



Key Drivers for Cost Reduction in Agencies

- Productivity Dividends May 2008 budget – 2%
- Sir Peter Gershon Review – 15% reduction to ICT BAU budgets
- The need to live within your means when:
 - Increasing demands for citizen centric self service channels
 - Increasing demand for information and data by government
 - Increasing digital information that needs to be archived.

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The drivers for cost reduction in government and commercial organisations (especially financial) are easy to find at the moment.

First of all we had the May budget cuts of 2% for all agencies that came out as PRODUCTIVITY DIVIDENDS (interesting way of classify a cut to an agency budget)

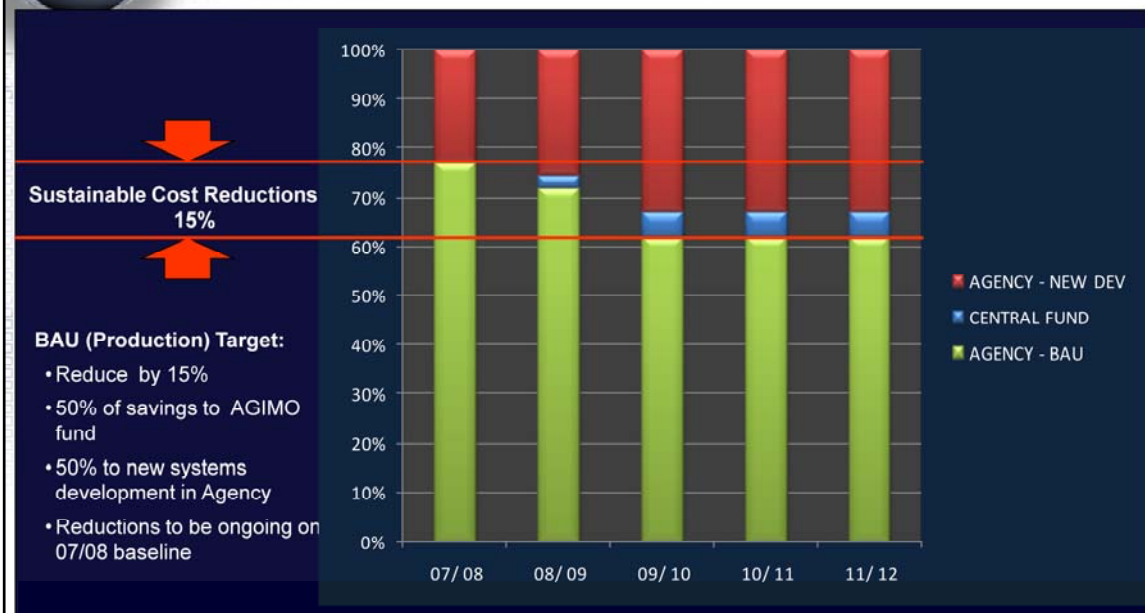
And now we have the Gershon Review that recommended a 15% reduction to ICT BAU (operational costs):

- for agencies with greater than \$20m spend
 - 5% year 1
 - 10% year 2
- for agencies \$2m to \$20m it is 7.5%

We also have the need to live within your means as the business demands in production continue to increase through web services, increased reporting and data sharing between government agencies.



The Gershon Challenge



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If we look closely at the Gershon challenge:

The view is that the BAU costs in agencies have not been subject to sufficient challenge and scrutiny and I think he is right.

His findings are that on average, 77% of an agencies ICT spend in on BAU and only 23% is for servicing new business requirements.

His target is to reduce this by 15% over 2 years SUSTAINABLE !!..... Not just one off belt tightening. It is easy to tighten the belt for one year – its much more difficult to make it sustainable.

Year 1 savings \$140m

Year 2 and ongoing \$400m

50% of this is to go to a central fund and 50% back into the agency to fund new whole of government initiatives – its not clear how this will be administered and the benefits realised from this investment.

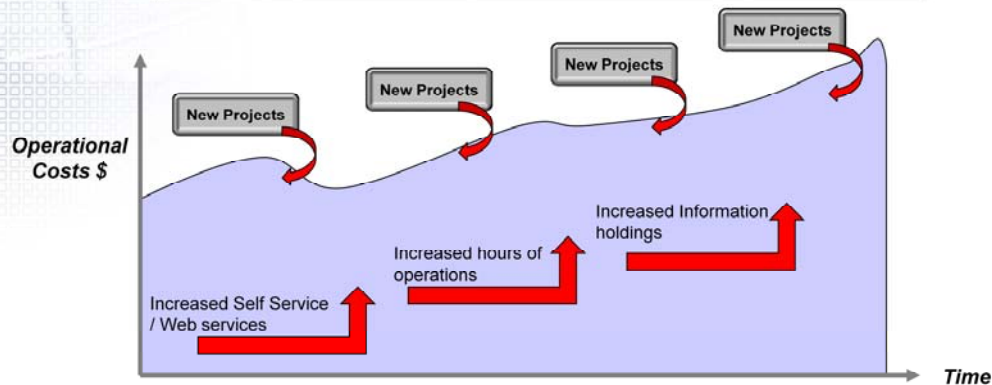
What is not clear is the recognition that agencies that have had good IT governance and been lean and mean will be treated the same as agencies that have not been and have a lot of fat – seems a strange way to treat some agencies that have been doing the right thing..... but what this means is that its going to be harder for them to meet the requirement and sustainable cost reductions are going to be harder and possibly create risks



Key Challenge for all IT Organisations

PROBLEM 1 - The operational management of production systems is a significant cost to most organisations due to its increasing percentage of the IT budget and new IT projects

- Operational costs are annuity costs
- Natural increase in use of operational systems and infrastructure
- Development costs tend to be one-off
- New projects (i.e. development) increase annuity operational costs



This whole concept of sustainable cost reductions is a real challenge to agencies and especially in relation to the Gershon implementation as agencies keep on implementing new systems and current business systems increase due to the economic climate where citizens are needing greater levels of government support.

The view is that while the overall budget for an agency will increase (or contract) the percentages are the real target.



Key Challenge for all IT Organisations

PROBLEM 2 – The efficiency of the production environment is generally not a priority for the organisation

- The production environment is a key indicator as to the “health” of the IT organisations processes – we are all products of our environments
- It is difficult to invest in a “fitness” program when there are other pressures



Project Managers

Key focus:

- Deliver fast into production / meet schedule
- Deliver within budget
- Meet business imperatives – deliver functionality
- Trade off quality - fix up problems/SLA's in production



Operations Management

Key focus:

- Deliver highly available production systems
- Allow business to realise the business benefits of the investment in systems
- Manage and evolve the business “assets”
- Implement funded efficiency improvements

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The next problem is that I don't think all agencies think that BAU or production efficiency is a priority – there is not a lot of glamour in operations.

The production environment is a key indicator of health of an organisation – just as we as individuals are products of what we do ---- are we FIT or OVERWEIGHT... do we really look after ourselves ? Unfortunately we say we cannot go to the gym because we have other priorities.

So it is with how we put systems into production.

The objective of a project manager is to get the system into production within budget and on time and make the necessary compromises on quality, performance and efficiency.... Unfortunately it is the operations area that is left holding the can.... When the root cause for high cost of ownership is back in systems delivery lifecycle.... only some much can be done to retrofit performance and efficiency once it is production.

This is exactly what the Gershon Review has picked up on and it is essential that agencies look at sustainable cost reductions and not just one off accounting changes.



Improving Operational Efficiency – Reduce Production Costs

Sustainable or Once-off



Reactive Cost Reduction benefits

- The specific problem is corrected and immediate financial benefit results (but the problem can reoccur)

Proactive Sustainable Cost Reduction benefits

- Stops repeating performance errors
- Longer term cost avoidance
- Extends life of technologies
- May apply to multiple technologies (midrange, telecommunications, storage, etc)

CPT Global experience:

- Generally up to 20% efficiency savings in short term
- These will creep back over time if “root cause” not addressed
- Various levels to sustainable efficiency gains
- Outsourcing pricing models can inhibit efficiency incentives

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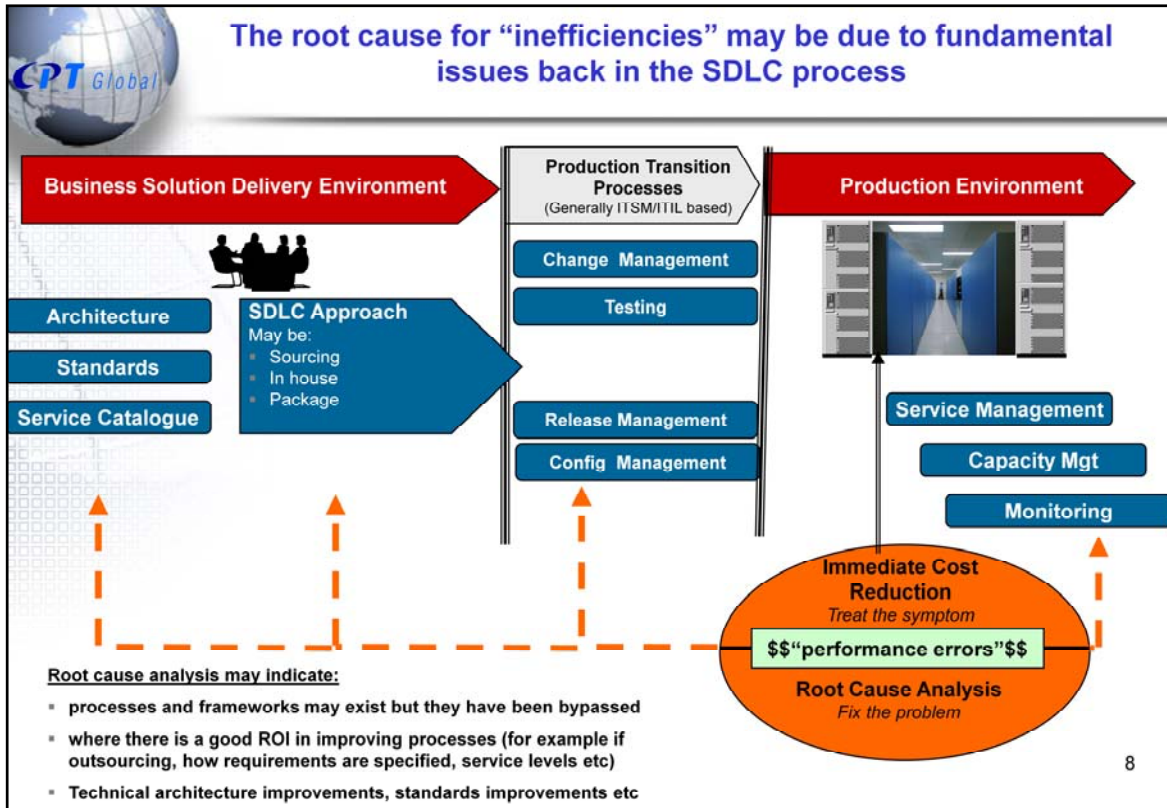
There is a big difference in how you do once off cost reductions and sustainable cost reductions

In fact you should do both !

Reactive / once off = provide immediate benefit but we are really treating the symptoms

Proactive / sustainable = longer term and many not be immediate as they may take time to flush through

This is an important difference ... but you can use the once off benefit to fund the longer term investment in creating a more efficient sustainable BAU environment



So if we look at the health of the production system we have the two choices of :

Treat the symptoms

Or

Root Cause Analysis

The further we go back in the development life cycle the longer it takes the benefit to flow through to production

But.... the further we go back the bigger and more sustainable is the benefit



Areas for Sustained Production / Infrastructure TCO

These are the most typical causes for an organisation experiencing inefficiencies in production

SYMPTOM	ROOT CAUSE (some)
Overall exceeding capacity: <ul style="list-style-type: none"> Unplanned capacity added to address performance problems Overnight batch runs not completing Excessive development, testing and training environments Backlog of changes 	Lack of capacity planning processes
	No service catalogue (containing service level targets)
	No SLA monitoring
	Lack of stress and volume testing
	No charge back (business users don't care how much it costs)
	Lack of operation planning (everything runs prime time)
	Not managing development environments effectively
High cost of ownership: <ul style="list-style-type: none"> High chargeback to business units Perception by business units that IT does not provide value for money Exceeding IT operational budgets Outsourcing costs exceed original business case Significant variances with industry benchmarks 	Architecture and Standards
	Capacity based pricing model
	Pricing model not scalable
	No user chargeback
	Poor / lack of scheduling (prime time vs. o'night)
	Pricing model is over recovering costs and needs to be recalibrated
	Client not claiming credits for SLA variations
Unreliable / not meeting SLA's <ul style="list-style-type: none"> Ineffective DRP Major audit issues being raised Failure to meet agreed online SLA's Overnight batch jobs exceed SLA's Time to recover 	Lack of storage archiving
	Architecture and Standards
	Testing in production / poor release management
	Poor configuration management on objects
	Lack of IT continuity / DR
	Trying to retrofit performance to poorly designed systems
No regression testing	

As an example – this chart provides an very typical list of symptoms and potential root causes that CPT finds when it is doing cost reductions in some of the largest data centres in the US and Europe

As you can see here we have highlighted the symptoms and some of the root causes that go back into the delivery cycle or the IT operational governance:

Exceeding Capacity (with a number of detailed symptoms)

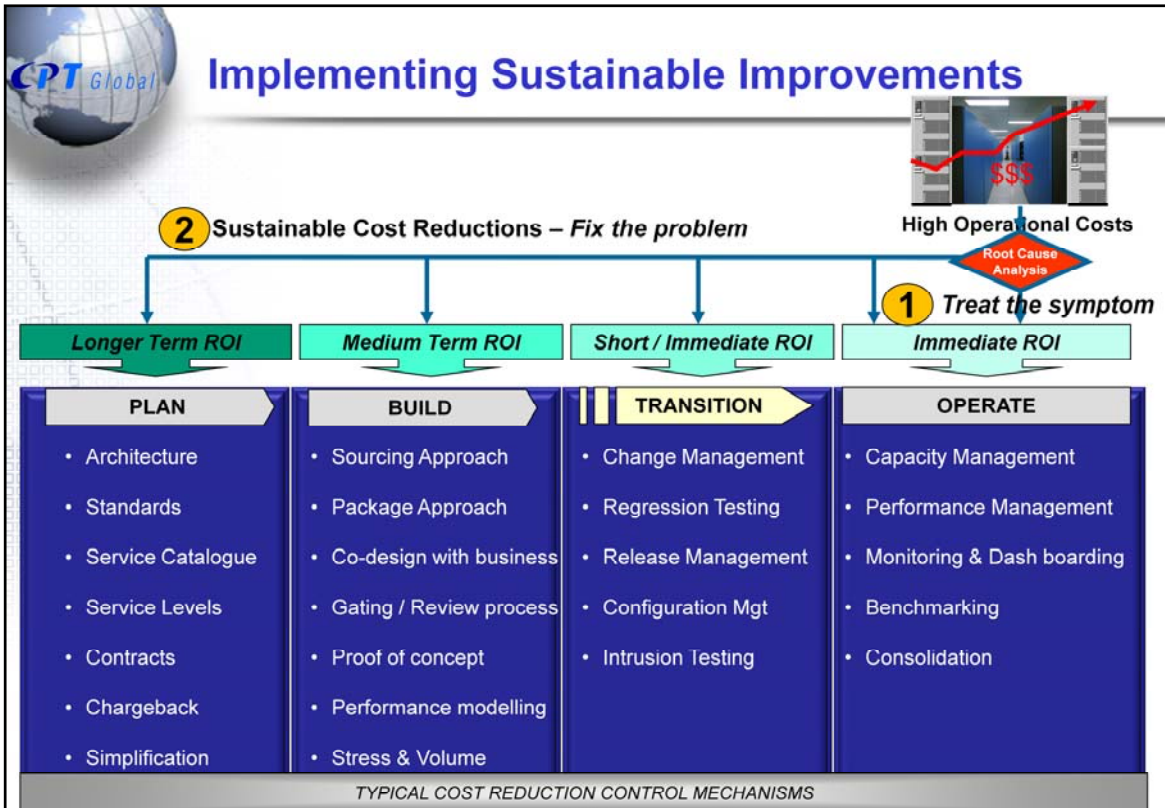
..... and the potential areas where the problem many caused from

High Cost of Ownership

...etc

Not meeting Business Service Levels

.... etc



So to summarise this ... the overall benefit to the organisation is greater if the root cause is early in the SDLC of the organisation as the benefit will not only be BAU benefits ... but the SDLC process it self.

You will also note that the ITSM/ITIL processes also provide a significant platform for implementing sustainable cost reductions in BAU (especially the recent V3 which has introduced a number of new processes such as transition into production, testing etc...



Cost Reduction Options

When an IT organisation experiences a high IT operational TCO it has a number of choices:

- 1 Do nothing – increase capacity, increase chargeback to business units
- 2 Immediate cost reductions – create a task force to correct errors and inefficiencies in production once TCO becomes unacceptable
- 3 Sustainable cost reductions – correct errors in production, analyse the root cause that allowed these errors to be introduced into production and implement sustainable changes

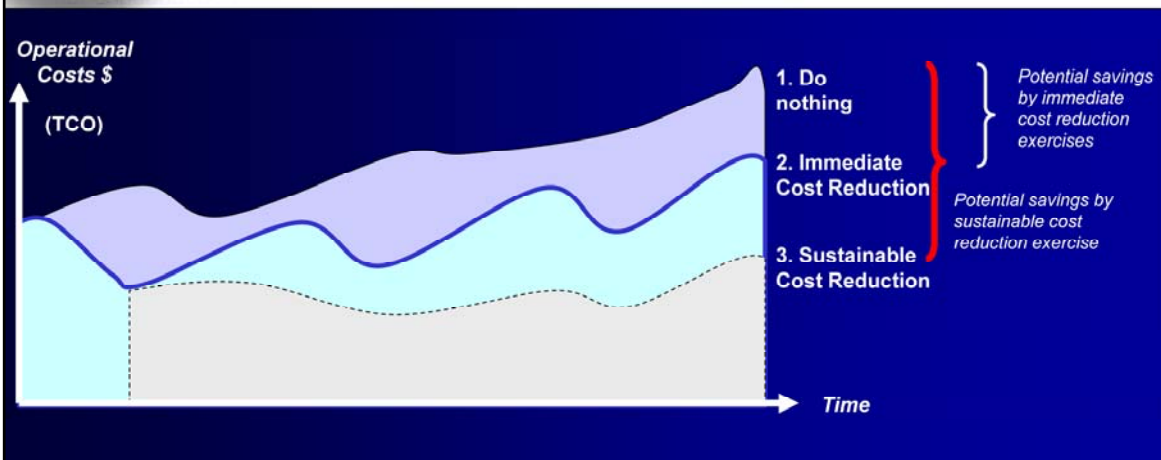
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So what are the options

1. Do nothing - Has been the norm and is what Gershon has stated and we totally agree with this
2. Immediate cost reductions Create tiger teams and get immediate results to drive down costs..... this is necessary but the sustainability MUST be considered otherwise the inefficiencies will creep back in unless the root causes are addressed.
3. Sustainability This approach is and add on to Immediate.... But it is a totally different process that need experience in root cause analysis.



IT Operational Efficiency Options



Key points:

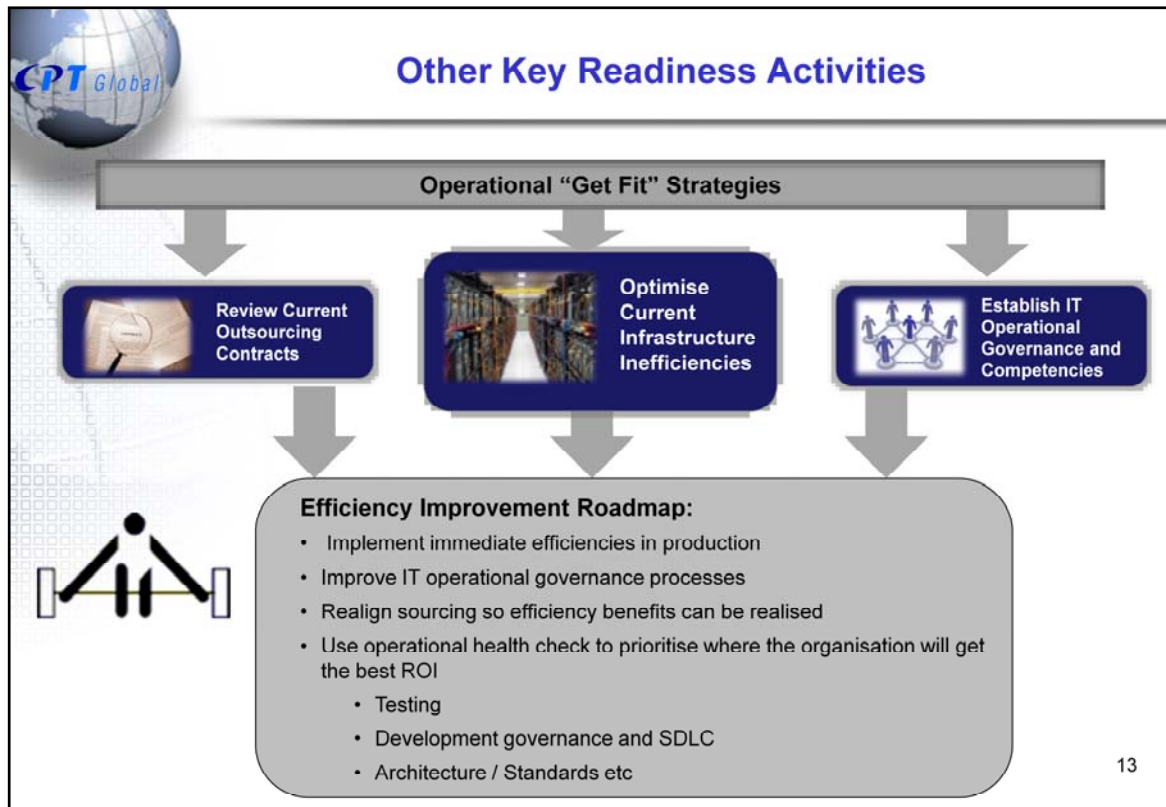
- **Sustainable & Immediate Cost** reductions are self-funding
- **Immediate** and **sustainable** cost reductions have the same starting approach

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This chart provides an example of the total cost of ownership implications of the three options

Options are:

- Do nothing – buy more capacity
- Immediate cost reductions – treat the symptom
- Implement sustainable IT governance improvements



So other "get fit" activities in addition to optimising the current BAU environment are :

REVIEW ANY OUTSOURCING CONTRACTS

- pricing models
- incentives for process improvement
- services not wanted
- Etc

ESTABLISH IMPROVED IT OPERATIONAL GOVERNANCE BASED ON ITIL (THIS IS A GERSHON RECOMMENDATIONS AS WELL)

- Implement IT operational governance based on the ITIL framework,
- ITIL is a methodology (like a Prince2) that allows an organisation to manage its infrastructure and production environment stratgically



In Summary

- The effectiveness of an organisations IT efficiency is best measured by the health of systems in production
- The IT organisation should consider both immediate and sustainable efficiency improvements
- Sustainable improvements should be the focus – but they can take time to be realised
- Fund sustainable cost reductions through a “treat the symptoms” cost reduction exercise



..... this is a new approach for organisations to reduce the total cost of ICT ownership and improve IT efficiency

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So the key messages are quite simple:

The effectiveness of IT governance is best measured by the results in production – i.e its level of fitness

ITSM/ITIL is an essential framework for improving IT operational governance

The initial cost reduction exercise is self funding

This cost reduction can be used to fund sustainable cost reductions in the area of IT governance earlier in the SDLC

..... this is a new approach for organizations to reduce the total cost of ICT ownership and improve IT governance

Thank you for your time....