

Executive Summary

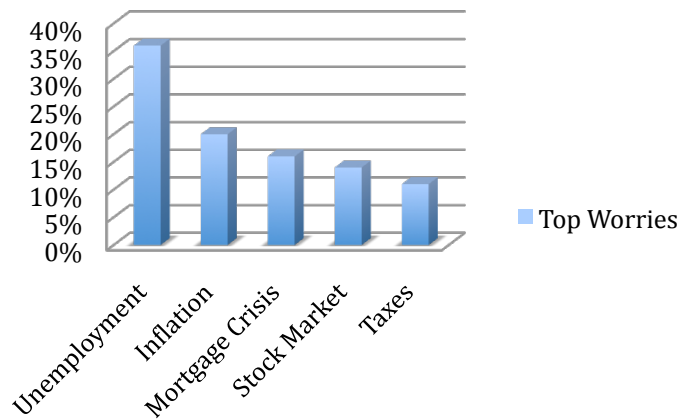
As a financially oriented individual, you are at the very forefront of decisions that affect the viability of your company. As the recessionary forces gather strength around us, a daily fight for survival based on cash-flow predictions and capital availability must be deeply wearing. I'm sure you are doing everything in your power to instill a sense of fiscal discipline among the various support divisions within the company, and ensuring they feel part of the solution rather than the problem. However, how would you feel if it became apparent that those same actions and words used to contain expenditures were perpetuating a critical expense crisis at the heart of your organization?

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Fear of Unemployment

A recent study by CNN/Opinion Research showed that the number one concern among Americans right is now is loss of employment. This is three times higher than just one year ago.

CNN/Opinion Research Poll
March 16th 2009
Survey of 1019 Adults - Accuracy +/- 3%



Stated differently, employees will do anything within reason to avoid being selected for layoff as the waves of redundancies crash across corporations; and rightly so. Alternative employment prospects are dire and the prospect of consumer price inflation, coupled with asset value deflation, puts the newly unemployed in an awful situation.

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It should surely therefore come as no surprise to anyone that IT executives are unlikely to own up to years of unnecessary expenditure, indeed it is more likely that they deny it and thus perpetuate it, if they feel to confess now would put them at the front of the firing line. An IT executive, whose primary responsibility is prudent spending on IT good and services, is simply not going to endorse any process change that suggests he has been wasting company funds over the last few years – this is not melodramatic speculation in order to support a good white paper. The following quotes are recounted from discussions Scalable and its business partners have on a daily basis:

“well what you say makes sense, but you are asking me to go to my CFO and admit to wasting millions of pounds of company money over the past few years – that’s never gonna happen”

CIO of a European Telecommunication Company

“I do not want our investors to know how much we have saved. They will ask too many questions about why we didn’t do this before and that will not end well for me”

CIO of a US Semiconductor manufacturer

“No one wants to admit that they've overspent thousands of dollars in company funds for unnecessary IT asset purchases...”

CIO of an Asian Bank

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We would fill several pages with quotes such as these. And I’ve no doubt the situation will only get worse as the recession deepens. Now the breathtaking irony is that, certainly in the case of software overspend, there was simply nothing IT could have done historically to prevent the overspend. The nature of software licensing, and traditional approaches to managing software assets does not surface opportunities to reduce costs in anyway

To summarize the problem; those responsible for a significant corporate cost center (IT) are actively avoiding changes that will save the company significant sums at precisely the time those savings are needed most. IT executives fear that to own up to historical spending excesses, even though where software licensing is concerned there is nothing they could have done to prevent it, will result in their unemployment. As

scrutiny of IT spending increases so does the jargon and complexity promulgated to shroud it from the financial teams. The net result is that vast savings opportunities are lost to a climate of fear within many corporations.

Capturing IT Cost Savings

This scenario obviously begs the question, how can this situation be solved?

No one should be fired if a process change is made, which reduces future expenditure on IT, also reveals that historical expenditure was out of control. This is an essential first step for future expense savings to be realized.

A number of options present themselves, some of which rely on trust and some of which are financial in nature. However, all of them are the responsibility of the financial division to initiate NOT IT.

The very first thing that needs to be communicated to the CIOs is that an amnesty exists for process changes in IT, which reveal significant historical overspending.

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To add teeth to this statement, there should be some compensation element that reinforces that the amnesty is genuine and also affects behavior. It will cost the company nothing to build a compensation plan for IT executives that add a variable element based on reducing cash expenditure without impacting service provision or putting the company at risk. I.e. eliminating waste. Such a compensation model should be easy to implement as we are really only talking here about checks that are written to third-party hardware and software suppliers; these amounts are very easy to quantify.

A final element to the plan would be to communicate the savings across the company. It is likely that such communications already occur for more general efficiency improvement, but with IT cost reductions it should be possible to say things like, “this quarter we spent \$2.5m less of software license fees and hardware upgrades than we did during the same period last year due to process changes within IT, without any impact to the service we offer end-users”.