Technology impacts of COVID-19

Creating a more dynamic technology cost structure in response to volatile markets

Real insights

Markets are facing dramatic economic decline in response to the global spread of COVID-19, but what this means to your technology organization will vary significantly by industry and how the situation continues to evolve. What is clear is that ***every information technology organization needs to be assessing its current cost structure*** and asking itself, "are we prepared for what is to come?"

In the past, economic downturns have generated the same initial response for most IT organizations: (1) reduce projects and service volumes; (2) secure discounts with key hardware, software, and services vendors; (3) stretch your labor force and scale productivity. ***The challenge? In the current economic climate, the old playbook may no longer be relevant for many organizations, as changes in the market are accelerating the digitization of businesses.*** This challenge will result in greater demand for technology capabilities in the face of declining resources.

As you prepare your organization for these changing market conditions, the first step is realizing that "fixed costs" are not always a good thing. Many IT organizations take incremental actions to reduce their costs at the beginning of an economic downturn without fully understanding what the impact of the downturn will be on the business. These actions typically include locking in discounts for software with enterprise license agreements, extending a service provider agreement for several years with a price discount, negotiating improvements in maintenance agreement costs, etc. ***These cost reduction tactics typically net 10 percent to 15 percent in reduced expense but "lock-up" a significant portion of the IT budget.*** If or when reductions of up to 40 percent are ultimately required by the business, the IT organization struggles to respond.

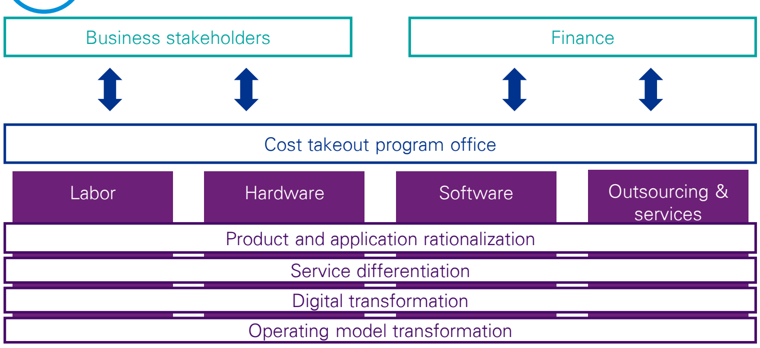
Organizations should start thinking about how to "tighten their belts" in these uncertain times, but technology teams are going to need flexibility every bit as much as efficiency in the times ahead. If your IT organization has already started reducing costs and you are concerned about how it may or may not limit your options, you can conduct a quick assessment of your cost structure to gauge your ability to respond to market changes. If you suspect your current cost structure is more rigid than you would like, there are actions you can take now to avoid more draconian measures later.

Triggers and pain points

Here are 10 quick leading practice indicators to help you assess your cost structure flexibility. A highly flexible IT cost structure will leave more options available to you while enabling your organization to respond to changes in the business.

	Leading practices for cost flexibility
1	Employees or non-fixed-price contractors make up at least 60 percent of your IT workforce.
2	Outsourcing or contingent labor contracts have well-defined change control measures (change orders make up less than 15 percent of project costs historically)
3	New projects or enhancement for existing applications or tools include a well-structured build vs. buy review process with objective measures
4	Software as a Service (SaaS) first architecture policy for noncore applications and tools (excluding security considerations)
5	Well-documented asset management processes and no major software usage findings in the last 12–18 months
6	No major technology assets requiring extended end-of-life support, minimal number of applications or tools with infrastructure, or operating system dependencies
7	Cloud operations include use of robust capacity management models, appropriate use of auto scaling, and decommissioning of temporary workloads
8	40 percent or more of your hardware or software costs can be considered variable (e.g., usage-based pricing, options to discount hardware maintenance via reduced service levels)
9	Software contracts with major providers have substitution options for ELAs or nonvariable license models
10	End-user computing costs have a high correlation with headcount ($0.70 of every $1 spent to add a resource to the business should be recoverable if the resource leaves the business)

Our perspective

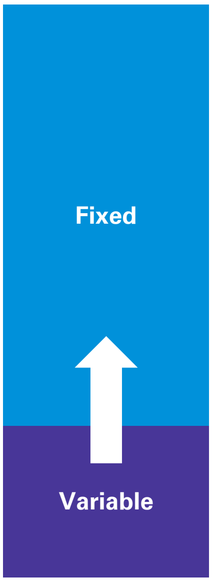


Engage with business and finance frequently to understand rapidly changing priorities and cost takeout scenarios

Centralize cost takeout efforts to understand cost opportunities and execute short-term cost takeout while maintaining flexibility for future takeout

Leverage core teams and SMPs to identify and execute opportunities for specific cost drivers and transformational initiatives

Dealing with large fixed cost base already?



- Consider migrating to "as a Service" models offered by your vendors (e.g., SaaS, IaaS, etc.) for software, infrastructure, and even labor solutions. Many vendors have been aggressively pushing clients to service-based versions of their solutions and may be willing to discount or provide financial assistance for the transition.
- If your organization has a significant "as a Service" base make sure the processes are in place to manage the capacity appropriately – consider conducting a detailed capacity analysis across your services and infrastructure to free up resources.
- Assess fixed costs and develop a timeline to transition fixed cost to variable where possible (i.e., contract expirations, cloud migrations, project renewals, SW licensing reviews, etc.) based on your organization's most aggressive cost reduction goals. Prepare for upcoming contract negotiations by working to develop variable and volume-based pricing models (i.e., data collection and should cost analysis) and strengthen your asset management processes.
- Perform a software licensing assessment and get serious about tools and software rationalization—this can result in short-term savings and potentially bring more resistant vendors to the table.
- For fixed cost contracts recently completed, look to extract additional value from these agreements through increased scope if you can rapidly reduce costs in other areas of the organization.
- Assess your application landscape to understand the critical vs. *noncritical* IT elements to enable service differentiation – this can result in substantial savings if you are actually changing the service model (e.g., moving to 8x5 vs 24x7) as opposed to simply loosening SLAs for your teams or maintenance vendors.
- Maintain flexibility where it currently exists, and do not lock in large spend for short-term cost savings if other offsets are not built into the arrangement. (e.g., volume tiers for an enterprise license agreement).

Getting started

In these challenging times, organizations can find it difficult to prioritize their efforts. Focus on identifying opportunities to create flexibility in your cost structure that best align with your businesses goals. If your business is rapidly expanding its digital footprint, look at updating your services agreements to better align with an agile-based operating model. If you have significant technical debt that is holding you back from optimizing your organization, consider doubling down on your asset management practices to free up hardware and software spend. No matter your organization's starting point, begin with these four steps:

- Assess the flexibility of your current cost structure, its ability to scale up, and more importantly, its ability to scale down
- Connect with your finance and business partners to gauge the size, variability, and impact of business scenarios you need to be planning for now
- Identify quick wins for financial flexibility by taking advantage of current contract renewals, supplier negotiations for new business, and strengthening your asset management practices
- Consider conducting a rapid cost optimization assessment based on the potential financial planning scenarios you've defined with your finance and business partners. If you know what cost optimization levers you want to pull first, you will have greater insight into which elements of your cost structure require more flexibility.

Contact us

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