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Surviving and Thriving in a Volatile Economy A Tydak Consulting Services, LLC White Paper

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Executive Summary

Between November 2008 and February 2009, in the midst of the worldwide financial upheaval, we interviewed two distinct groups of professionals—C-Suite individuals who oversee entire organizations (CEOs and CFOs) and executives specifically working in the IT arena (CIOs and VPs of Information Technology)—in order to determine how IT, on the whole, was being viewed .

The study spanned companies of different sizes, across several industries (including: biotech, computers, electronics, services, software, defense, entertainment, manufacturing, real estate, and food and beverage).

Our goal was to learn how the recent economic changes that had affected *all* business operations had, in turn:

1. Specifically influenced IT departments,
2. Changed the decisions made by CEOs, CFOs, and CIOs, with regard to IT.

We found that, although business technology has continuously progressed, many organizations' IT departments have become thought of as "costs," rather than as "assets." Information technology professionals reported that they are no longer simply concerned with how to prove the worth of their services; they are doing everything they can just to keep the lights on.

This paper will reveal what successful IT departments are doing to persevere in the current economic downturn and how other IT professionals can not only survive, but *thrive* in a volatile economy.

Introduction

For the last decade, Chief Information Officers (CIOs) and Vice Presidents (VPs) of IT have increasingly expressed their frustrations in getting higher-ups to take an interest in the IT function of their companies. “Based on how [our] business is treating us, it doesn’t feel like they value IT,” remarked one CIO interviewed. “We are a cost to be managed, rather than an asset to be deployed.”

Surprisingly, this paradigm shift came about during a period in which technology had become more integrated with business operations than ever before. Employees readily admitted that they couldn’t fathom how they *ever* managed without computers, office machines, and automation. And yet, IT departments found themselves struggling to define their role in the modern business model.

Then, in 2008, financial markets crumbled, the mortgage industry caved in, stalwart corporations went bankrupt, and unemployment soared. Naturally, the retail sector was deeply affected; both manufacturers and store owners found themselves with more product than they could sell. A “domino effect” ensued as businesses failed—and took their suppliers and partners down with them. All of the “rules” and “norms” suddenly became meaningless, as companies across the board went into survival mode. Likewise, IT departments, which had been clamoring to prove the intangible value of their services even *before* the crisis, found themselves justifying their very existence.

The real problem is not a turbulent economy; it is that most IT professionals have been unable to shift from their original function—as maintenance staff and efficiency experts—to their 21st century position: as strategic partners who understand (and can integrate with) the processes of their businesses. “Whether [CIOs] emerge as heroes or scapegoats is up to them,” notes Jose Carlos Eiras, former CIO of DHL.

Results of the Survey

As companies' revenues shrink, no department is shielded from the cost-cutting scythe. It seems that IT groups, however, are having a particularly tough time scaling down. Paul Horowitz, a senior partner at Pricewaterhouse Coopers, has explained that in most cases, "[IT] is a fixed cost that, in the short term, doesn't scale downward with a decline in business volume."¹

Part of our study looked specifically at how this particular issue has been addressed. Most respondents' answers fell into one of three categories: survival, re-evaluation, or optimism.

Survival

In "survival mode," a company does only what is necessary to stay afloat. There is no room for planning or deployment of strategy; the focus is on figuring out what is needed to make it through a finite (but turbulent) period. Survival mentality is reactive ... and zero-based budgeting abounds.

The executives we interviewed reported using the following survival techniques:

- Preserving capital by stopping (or entirely cancelling) projects that aren't considered "essential";
- Closely monitoring (and slowing) the costs of essential projects;
- Controlling spending on travel and entertainment (and, in some cases, completely freezing discretionary expenditures);
- Reducing headcount by means of layoffs and/or attrition (especially those positions related to projects that have been slowed or stopped);
- Cancelling contracts with consultants and contractors.

Reevaluation

In "reevaluation mode," a company is willing to question all of the "norms." There is room to reconsider any expenses that may have been "must haves" in the past, but seem like "maybes" today. Roughly 10% of the executives surveyed revealed that they had become much more receptive to process improvements that had previously had little support or had been ignored entirely. They also reported modifying the business focus overall.

The reevaluation techniques discussed included:

- Reorganizing staff to reduce costs and/or improve processes;
- Basing project approvals not only on initial investment, but with regard to ongoing costs as well;

- Focusing on revenue-generating activities;
- Examining all expenses to determine which could still be considered essential and which could be scaled back or eliminated entirely;
- Renegotiating contracts and agreements with all vendors and consultants;
- Reducing the number of vendors used in order to improve economies of scale and/or gain additional negotiating power.

Optimism

“Looking on the bright side” during a deep recession is truly a balancing act. It’s important to believe that business *will* get better in order to keep every decision from being made out of fear. That said, unbridled idealism about how long a recovery may take is just as dangerous. Less than 1% of those interviewed reported not making *any* changes, content to “wait it out.”

The majority of executives who held an optimistic point of view felt that:

- The recovery is expected to begin by 2010 or 2011;
- Short-term cuts to “get through” the next couple of years are preferable to substantial changes to processes or structure.

Impact of the Economic Climate on Business Focus

We asked each participant to rank his/her company's current areas of focus—in light of the volatile 2008/2009 economic period—across five predetermined areas, from most to least important. Overall, the group's responses ranked as:

1. Cost Savings
2. Customer Loyalty
3. Quality
4. Innovation
5. Employee Morale

Cost Savings

It isn't surprising that a majority of executives reported being in this particular mode, considering the number of companies openly trying to "stop the bleeding." Unexpected shifts in the economy have rendered strategic planning relatively useless. What worked well in the past is not necessarily working at all anymore. The stability and patterns on which those practices were based no longer exist.

Customer Loyalty

Competition for customers' dollars has become fiercer than ever. A restaurateur may offer incredible dinner deals, hoping that if his current customers go out to eat *anywhere*, they will choose to dine at his particular restaurant. The savvy company isn't merely interested in grabbing discount dollars today, however; the overall goal is to maintain an existing customer base that will still be there beyond the slump.

Quality

Ranking either second or third for most respondents, everyone seems to agree that in order to have loyal customers, a company must have a high-quality product or service.

Innovation

In this category, the responses became quite diverse. The value of innovation to an executive seemed to have a direct correlation to the business in which he/she worked. Those with products and/or services that do not change much over time ranked innovation very low.

With such intense pressure to reduce expenses, some felt that the costs of innovation—for either product development or new processes—simply couldn't be supported.

Furthermore, there was a sense that any activities not directly related to *existing* products and services are frivolous and wasteful.

Venture capitalist Guy Kawasaki, in a recent interview with *CIO* magazine, cautioned companies not to equate new ideas with money. “[T]wo guys in the lab might create the great innovation. It doesn't have to be the 10 million dollar budget line item for R&D,” Kawasaki asserted. “I could make the case that money can't buy innovation. If it did, then large companies would get larger and startups would never innovate.”²

Employee Morale

With the exception of *one* respondent, morale was ranked as either fourth or fifth, across the board. “In hard times, it's easy to forget the value of human capital,” Maureen Moriarty, executive coach and founder of Pathways to Change, has said. “Faced with pressure to cut budgets, many CIOs scaled back on their efforts to attract, nurture, and retain employees.”

Moriarty referenced Gartner Research's annual poll of CIO priorities, in which the importance of “attracting and retaining high-quality employees” slipped from the number two key management issue in 2001 to number nine in 2002. In response to that poll, the Group Vice President of Executive Programs at Gartner, Ellen Kitzis, concluded that “the message CIOs are getting from their company is that people aren't as big a priority as getting cost out of the budget.”³

The phenomenon is textbook supply and demand theory. When the availability of suitable candidates is high, companies worry significantly less about employee morale. When the number of qualified employees available is scarce, on the other hand, companies focus on retention.

Impact of the Economic Climate on IT Spending

José Carlos Eiras, author of *Practical Advice for CIO's*, has summarized the status quo as follows:

“Many CIOs will find themselves trapped in a labyrinth from which there appears no hope of escape. On one hand, they must focus on cost reduction. On the other hand, they must produce tangible results for the business. Striving for cost reduction, their decisions are driven more by panic than logic. Some of those hasty decisions can make it nearly impossible for IT to deliver the results necessary to sustain the business in times of great stress.”⁴

In the interviews we conducted, we recorded five distinct reactions related to IT spending and behavior.

Reaction 1: Control Overall Spending

- Postpone new purchases.
- Delay payments to vendors and suppliers.
- Wait to upgrade electronic equipment and/or software.
- Reallocate software licenses that are under-used or unused entirely.
- Renegotiate with vendors.
- Cut training programs.
- Suspend business travel.
- Eliminate discretionary expenses.

Reaction 2: Defer Project Spending

- Put off the current year's projects until next year (at the earliest).
- Evaluate projects currently underway to determine whether their value justifies continued investment.
- Base the allocation of funds on a project's ability to increase sales and/or reduce costs.

Reaction 3: Reduce Payroll Costs

- Don't replace people who leave (regardless of their role).
- Cut contractors and consultants.
- Evaluate alternative staffing solutions, such as outsourcing.

Reaction 4: Streamline Processes

- Consolidate tasks to improve efficiency.
- Reassess any activities related to internal improvements.
- Be grateful for any advance planning that initiated a “pet project” before funds became tight.

Reaction 5: Do Nothing

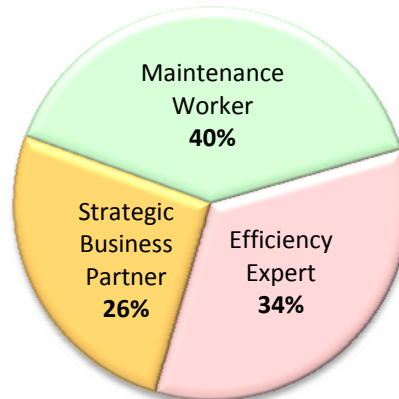
- Work under “business as usual” conditions.
- Assert that current economic conditions do not affect a particular industry.
- Wait and see what happens.

The Role of IT in the Modern Organization

We asked our subjects to rank their companies' levels of expertise in three predetermined areas of IT. Surprisingly, the answers were consistent regardless of job function; CEOs and CFOs opinions matched those of CIOs and other IT executives.

Most professionals ranked their organizations' highest in the maintenance of their existing systems—even those who reported having “sophisticated” IT systems in place. Their secondary skill was in creating efficiencies. Their ability to partner strategically with their organizations came in last place.

Those areas of expertise were translated into three roles—maintenance worker, efficiency expert, and strategic partner—which broke down as shown in the graph below.



Service & Support

“Maintenance workers” make sure that the day-to-day technology of an organization stays up and running—by installing or removing hardware and software, helping users experiencing technical difficulties, and troubleshooting problems as they occur. Periodically, they may replace the things that have broken down or become inefficient.

All of the professionals we surveyed confirmed that their companies utilized a call tracking system (to measure the quantity and types of support calls), as well as a method of tracking their departmental budget and spending. Those individuals with more advanced operations also confirmed having:

- Service Level Agreements (SLA);
- Some kind of Information Technology Infrastructure Library (ITIL) program;
- A service catalog, listing their functions and how to access their support.

Given the opportunity to improve one thing, most wished they could translate the activities of their department into financial terminology (i.e. a four-hour outage cost the company \$75,000).

Review & Report

Although none of the people we interviewed had been doing any benchmarking (which used to be quite common), nearly all of those who ranked themselves as “efficiency experts” had a formal method of tracking projects. The more tech savvy companies also had:

- A clear process for evaluating the value of projects (such as: ROI calculations);
- A solid means of ensuring that projects stayed on time and within budget.

Most respondents further wanted the ability to show a direct connection between technological improvements and their specific benefits to the business, as well as the ability to track the resulting cost savings more accurately.

Partner & Plan

Traditional, standardized reporting simply does not work in this arena. Whereas a sales department has quantifiable sales goals and reports, the IT department does not have a specific way to measure its success. Generally, CEOs do not know how to set expectations for IT and, likewise, IT professionals aren't sure what they can report that will be perceived as valuable.

Instead of employing specific metrics, most of the IT professionals we surveyed were:

- Meeting with executives and project sponsors around high visibility projects;
- Discussing which projects to cut or delay;
- Watching project-related spending more closely.

The organizations with more advanced partnering skills had:

- Solid working relationships with their CEOs and CFOs;
- Regular meetings with an IT steering committee and/or executives with the intent of creating higher value;
- Some kind of concrete reporting method (such as: dashboards, scorecards, or annual reports);
- Specific methods of targeting the processes within IT that could cut costs;
- An ongoing effort to develop more value-added, cost-effective business processes (through automation and other means);
- Early involvement in any project with an IT component (even before the project approval stage).

Among these professionals, there remained a desire to move up to the “next level” of interaction with executives, as well as a way to identify something (other than individual projects) that the company would value enough to have an ongoing discussion about.

Although many CIOs claimed to be unhappy about their roles within the organization, they felt that the volatile economy only entrenched them further into those positions. Paul Horowitz, a senior partner at Pricewaterhouse Coopers, wrote:

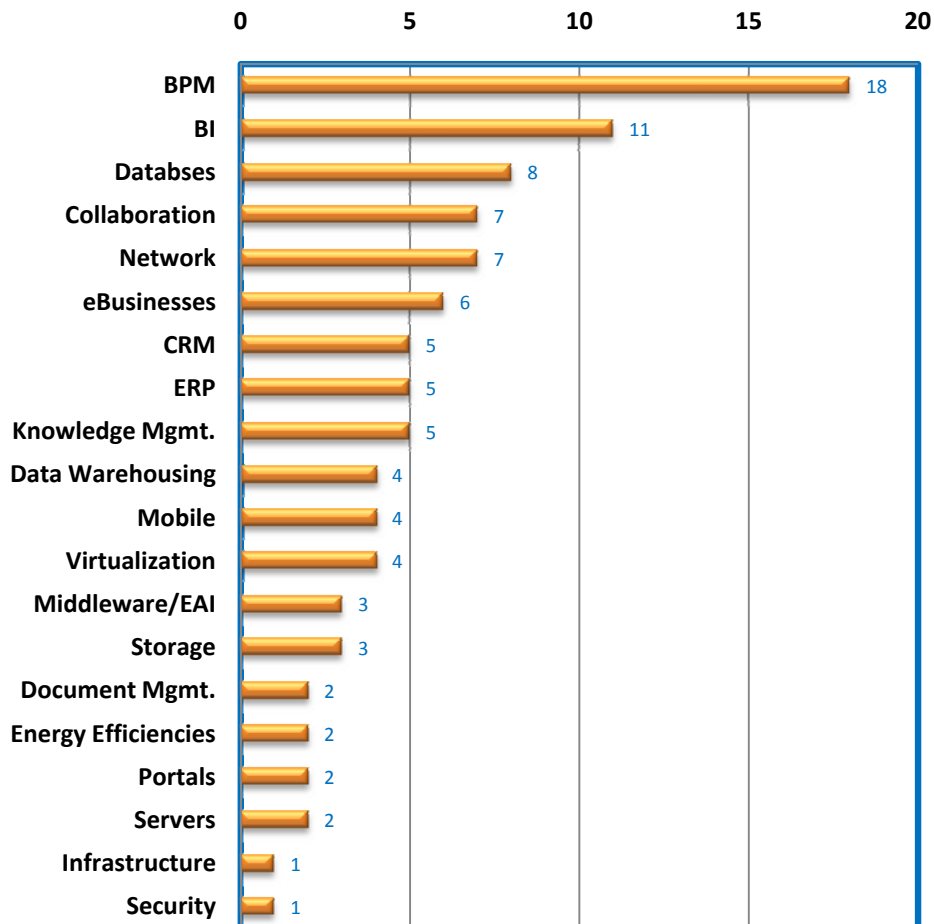
“A recent study found that 87% of the IT budget is used just to keep the lights on; the other 13% just keeps pace with changing business requirements. Time and time again we've seen companies pursue cost reduction haphazardly and the short-term payoff is quickly offset by loss of business functionality or higher repair costs.”⁵

The few participants that scored highly in the “strategic business partner” role had already been integrating IT-specific functions with their companies' overall operations—and reported being close to completing that implementation. In particular, they concentrated their efforts on process and project management, often implementing relationship-management roles.

“What we need are not the technical skills,” E. Jeffrey Hutchinson, CIO of The Dannon Company has said. “I can outsource those to other countries around the world. We need the individual who has the breadth and depth of expertise [and] can be perceived by the functional or process areas as a value-add.”⁶

Activities of Award-Winning IT Groups

We were interested in the results of CIO magazine's "Top 100" in 2008, as they related to the ideas presented in this study. The awards are intended to honor "companies that are creating new business value by innovating with technology." The graph below is a breakdown of the winners' projects, by classification. ^a



The intent of this chart is to show the specific types of activities that today's successful companies are employing. In other words, those projects classified as Business Process Management (BPM) aren't *more important* than Security projects; there are simply a greater number of award-winning companies focusing on—and financially supporting—BPM and Business Intelligence (BI) activities.

It was also interesting to look at the breakdown of business units that received the benefits of the award winners' improvements. The top three areas were:

1. Accounting and Finance (22%)
2. Customer Service and Support (17%)
3. R&D and Product Development (16%)

How To Survive and Thrive

Stop the Bleeding

- Keeping a tight rein on spending is always a good idea, even in the best of times; however, policies to cut certain types of spending entirely may provide short-term relief with long-term consequences. *Think it through before you make any financially motivated cuts.*
- Like everyone else, your IT department will have to do its share to help your company survive the current economic downturn. You may have to endure cuts—and sometimes severe ones at that. In order to make sure you're cutting in the right places, look at the measures being used by the other companies we interviewed. *Make sure you have considered a wide range of cost-cutting options.*
- Once you've stopped the bleeding, analyze what you're left with and try to determine where the business is going next. The “silver lining” for any CIO in a company that is searching for answers is that it's a great opportunity to step up and be heard. *Participate in the kinds of discussions and decisions that will turn you into a strategic partner.*

Redefine Your Role

- The easiest time to make a change is when things are already changing. If your role has been primarily to maintain the IT environment, then move toward being an efficiency expert. If you are already an efficiency expert, then work to become a strategic partner. *Use company-wide change to your advantage by revising your own role.*
- The best companies are integrating their IT processes directly into their business planning. Remember that IT is involved in process improvement, project management, and even product development. *Start thinking strategically about ways to integrate IT across the board.*
- Although you probably feel like you can barely handle all of the work you have now, try to find opportunities to show how your new role adds value. Even the smallest steps, if done every day, will end up looking like a giant leap by the end of the year. *Make continuous small steps toward your desired outcome.*

Become Actively Involved

- If you've got your delivery down, this is an opportune time to start thinking about participating in projects that will improve business processes as a whole. If no one has implemented such actions yet, suggest some things that may get the ball rolling. *Get involved in the big picture.*
- Demonstrate that your "world" and the corporation's "world" are actually one in the same. Shift your peers' perception of IT and how it can add to the value of your organization. *Participate in any effort aimed at making internal improvements.*
- Without a clear understanding of what a specific business process is lacking—and how a certain IT service can improve it—you run the risk of changing for the sake of change and not actually improving anything. *Take the time to do adequate research before acting.*

Create a Catalog

- Answer these three questions:
 1. What are the top five services your department offers to your company?
 2. Would the business recognize those things as "services" per se?
 3. What do those services cost?If your answers to those questions were not already down on paper, *consider creating a Service Catalog.*
- A good Service Catalog creates a common language between IT and the rest of the business about what exactly is being offered. It's much easier to discuss the impact of changes—and avoid wasting time and money. *Make a clear list of specific things IT can do to serve the company.*

Assess Your Team

- Your organization is only as capable as the players you have on your team. Once you understand the business you are in (or, rather, the business you are going to be in after the dust settles), *carefully determine whether or not you have the right staff.*

Jose Carlos Erias elaborates: "As the manager of an indispensable organization within a larger business, one of your primary responsibilities is attracting nurturing, promoting, motivating and preserving talent. This responsibility to find and manage talent extends well beyond the traditional boundaries of the company to include vendors, consultants, business partners, and all the various outsourcers that IT depends upon. A deep

pool of talent is a great asset and the best hedge against the uncertainties of a bad economy.”⁷

- This is the best time to hire great IT staff. A lot of highly skilled, knowledgeable professionals have been laid off and, as a result, are available at lower pay rates than ever before. You may now be able to afford that information architect, business analyst, or relationship manager that you’ve been dreaming of. It is worth the battle to justify to management your need to hire star players. *Make a strong case for new hires.*
- To remain competitive, you must evaluate different staffing options. Keep in mind, though, that outsourcing decisions have the propensity to more expensive than anticipated when the outsourcer discovers that you need more than you realized. Before you can effectively outsource a task, you must *make clear distinctions about the specific services you currently provide—and those that you do not.*

Empower Your People

- Ask everyone you work with to actively participate in finding solutions to the challenges facing your company. Make sure that you can clearly state those challenges, so that ideas provided by the staff are targeted. Rather than waiting to give or receive directions, *make independent thinking the norm.*
- Now is not the time to shy away from creative ideas. Encourage your staff to think like MacGyver: He didn’t come up with expensive high-tech solutions; he used what he had to create brilliant new ways to fix problems. *Ask yourself if there is a better way to use what you already have.*
- If you cut consultants because projects have been discontinued or placed on hold, make sure that you still have the internal resources to fill in any resulting gaps. Examine every part of what a contractor is doing before discontinuing the use of his/her services. *Train your staff accordingly before bringing projects in-house.*

Speak Another Language

- In order to have something valuable to say when the opportunity presents itself, you have to understand the business you serve. Figure out whether it is most important to management to generate revenue, cut costs, track statistics, measure results, or accomplish something else. *Align your offerings with the things that your company is really interested in.*
- Do not make assumptions about what others know or understand. Utilize informational tools that offer a lot of information in a concise format, such as

graphics, dashboards, and balanced scorecards. *Present data in a way that is easy for anyone to understand—even those unfamiliar with the subject.*

- Have one-on-one meetings with executives or steering committees to gauge expectations and discuss potential outcomes. *Quantify what “success” looks like in your department.*

Predict the Future

- Don't hide behind the excuse that it is impossible to predict what might happen next. If you're waiting for your business to ask you for something, think again. *If someone else isn't asking any questions, you should be.*
- Staff members that are hands-on (and/or interact with customers) are more likely to identify solutions that often are not readily apparent to employees who work “behind the scenes.” *Listen closely to the front lines.*
- Look outside of the organization and notice the ways in which the world is changing around you. Think about what your business might need before management even asks for it. Estimate what may be required to get the job done and be prepared to act swiftly once decisions are made. In order to minimize the effects of the “crisis de jour,” *be proactive rather than reactive and have contingency plans ready.*

About Tydak Consulting Services, LLC

Tydak Consulting Services, LLC is a privately held, woman-owned consulting firm located along the 101 Technology Corridors in Southern CA. The company consists of a select group of accomplished, ITIL-certified, business intelligence professionals—all of whom have worked on the “front lines” and understand the day-to-day activities of all kinds of IT departments.

As a result of their real-world experience, Tydak’s field consultants are able to address specific challenges and, more importantly, can communicate about the issues clearly to senior management—without using IT jargon. Quite simply, Tydak produces clear-cut results and provide straightforward explanations and practical information, *not* raw data.

Dedicated to the *quantifiable* success of every client, Tydak delivers immediate results, including marked improvement in customer satisfaction and significant reductions of operating costs. Time and again, Tydak has reshaped IT “cost centers” into valuable, customer-focused resources that contribute to the bottom line. This is accomplished via:

1. Customized IT Service Management (ITSM)

ITSM **creates customized metrics** that objectively measure exactly what (and how much) the IT department contributes to the company. Tydak **designs step-by-step processes** to increase overall productivity—and **determines the exact resources needed** to get the job done. It ensures that every employee works every day toward the same goal.

2. Business Intelligence (BI)

To help you measure your progress, Tydak provides best-of-breed BI solutions that sit on top of your existing systems and applications. These user-friendly solutions **transform data into information** by enabling non-technical personnel to create, format, and distribute reports without having to rely on IT. This frees up costly IT resources, and allows managers and front-line personnel to **get immediate answers** to critical questions.

3. Data Warehouse Design & Development

Your company’s data is likely stored in numerous “silos” within different systems and applications. Consolidating it all into a data warehouse or data mart will give you a “single version of the truth,” eliminating costly and time-consuming reconciliation. Based on a company’s current and future needs, Tydak offers **vendor-neutral recommendations** and **designs cost-effective management solutions**, of any size, from the ground up.

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Citations

End Notes

- ^a For details about the winning projects and companies, go to *CIO* magazine's online results at <http://www.cio.com/cio100/2008/3>.

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