

German Perspective: 11 Options to Optimize IT Costs in 2009

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This research presents 11 options that will help German CIOs achieve IT cost optimization. CIOs, program leaders and initiative leaders in Germany should assess these alternatives to successfully optimize IT costs in 2009.

Key Findings

- German buyers have slowed their decision processes, but the CEO, COO and/or CFO frequently influence ownership decisions for large IT investments and provide additional business insight for IT sourcing decisions.
- Only 8% of 150 participants at the December 2008 Gartner conferences in Germany and Austria indicated that they had canceled IT projects because of changes in the economy.
- Gartner forecasts a reduction in IT spending, particularly in IT services and in the procurement of IT hardware and software technologies, in the German IT market in 2009.

Recommendations

German CIOs should:

- Deliver immediate economic value through cost optimization initiatives in 2009. These initiatives should pertain to local enterprise business conditions, such as optimizing capital IT expenditure for ERP software licenses.
- Consider supplier consolidation before opening new sourcing arrangements with different vendors, if their enterprises are economically challenged — for example, in the German banking industry.
- Drive the creation of a competitive cost leadership through IT-enabled innovation, such as disruptive IT technologies, in a country with historically large patent-filing volumes in Europe.

ANALYSIS

Gartner research finds that since the fourth quarter of 2008, suppliers to the German IT technology and service markets have been confronted with slowing buyer investment and decision-making processes. Participants at Gartner's German Technology and Strategy Summit in December 2008 indicated that 8% of IT projects were canceled because of changes in the economic conditions (for more information, see "Highlights of the German Technology and Strategy Summit, 2008" and "Findings: IT Projects Rarely Being Canceled, Despite Gloomy Economic Outlook for 2009 in Austria and Germany"). Our IT spending growth forecast for IT services (see "IT Services Europe: Forecast Database") also assumes that German CIOs will concentrate on optimizing their IT investments, signaled in decreased spending from 4.5% in 2008 to 4.3% in 2009.

We have clustered IT cost optimization options for German CIOs and cost optimization initiative leaders under three categories:

- Three options for IT services
- Two options for business process improvement
- Six options for technologies

Three Options for IT Services

Option 1: Renegotiate Outsourcing of IT Services

If you wish to better align contract terms with changing business requirements or include emerging business issues in the contract, renegotiate your contracts with incumbent service providers. Renegotiations can usually occur anytime in the later part of an outsourcing contract's life cycle; Gartner research indicates that 50% of these renegotiations occur before the end of the contract term. Renegotiations often results in cost savings, and Gartner has seen this approach save organizations 20%. However, German CIOs must understand that renegotiations involve concessions, such as less-stringent service-level agreements (SLAs), and that "premium" service levels will not have a bottom-line impact; lowering service levels and/or pricing can help achieve cost optimization.

In a 2008 user study, Gartner found that of the German organizations that experienced contract changes in 2006 and 2007, 35% saw pricing changes. The scope of the contract changed in 30% of the cases, which is another way to influence the total cost of sourcing.

Option 2: Increased Usage of Offshore Resources

German CIOs should outsource components of their IT organization in 2009, if the organization has a reliable and current baseline for workload, complexities, metrics and costs, and if the supply side of the IT outsourcing market accepts a degree of risk. We found that 36% of German IT buyers would consider using offshore resources to optimize costs, and 29% stated they would never consider using offshore resources as an option, which is a strong contrast to Europe's 17%. German CIOs should focus on change initiatives and program and business competitiveness because we predict that up to 30% of outsourcing deals signed in 2009 and 2010 will be far too focused on providing a quick fix for financial problems. The value from increased use of offshore resources can go beyond cost optimization. Specifically, CIOs' inclusion of options that fund additional workload, innovation or modernization efforts would

thereby offload noncore competencies and allow Germany-based experts to concentrate on innovation and customers.

Option 3: Save on IT Consulting Contracts

German CIOs should consider different alternatives to get more value from IT consulting contracts, which, in turn, will boost business performance and impact the bottom line.

For example, assess your existing engagement buying practice and increasingly consider negotiating for risk-sharing agreements. This strategy could stimulate consulting service providers to inject more value (for example, innovation delivered through workshops or sourced from research) in the consulting deal. And, at the same time, the provider would share more of the engagement's outcome-based risk. Gartner's ERP Magic Quadrant studies have shown that gain-share agreements are rarely applied. Buyers should decide if they want to reduce the duration of projects or procure IT consulting service bundles with other IT services, such as an outsourcing contract. They should also decide if they will constantly measure service providers' tangible economic contributions and commitment, and they should consider if niche providers are applicable for their 2009 IT consulting projects. Organizations can immediately optimize costs if they procure consulting services differently. We estimate that organizations can optimize costs by 10%, if they bundle outsourcing agreements, ease project refinancing, reduce financial risk, increase economic returns and increase competitive pressures on suppliers through shorter-term, rather than longer-term, commitments made by the consulting service provider.

Two Options for Business Process Improvement

German CIOs could also focus on business-process-oriented cost optimization (for example, 48% of respondent organizations in the United States had quality initiatives in progress in early 2008). Such initiatives can apply Lean or Six Sigma data-driven methodologies to measure and improve business processes. Benefits from quality initiatives materialize beyond cost: Increased process quality is a competitive advantage to the enterprise and can assist as an IT-enabled response to the growing business development uncertainty in the German economy. Six Sigma and other business process-focused initiatives can assist German CIOs in creating interest around business process modeling, or can be understood as a lever to further optimize IT costs and drive process effectiveness. Demand for business process transformation, outsourcing and high-performance workplace exists and reflects a response to the sustained skilled labor shortages in Germany.

Option 1: Finance and Accounting Business Process Outsourcing

Business process outsourcing (BPO) of finance and accounting (F&A) services represents a significant cost-saving opportunity for business and IT buyers. About half of Western European buyers of F&A BPO services saved up to 20% in costs, which illustrates the value that business CIOs in Germany could achieve through outsourcing these business processes.

Option 2: HR BPO

Seventy-eight percent of global buyers of HR BPO achieved up to 10% cost savings, which illustrates the value that HR BPO can deliver to businesses. Enterprises should consider a multitier HR service delivery model to lower costs and improve quality for administrative HR processes. According to the CedarCrestone 2007-2008 HR Systems Survey, top-performing companies spend 20% less on HR (per employee) than average-performing companies. In some industries, such as financial services, the expenditure can be 50% less.

Six Options for IT Technologies

Germany is frequently mentioned as an early adopter of new environmentally friendly policies and regulations. German CIOs can leverage these six technology options, such as multicore server or virtualization, to reduce energy costs or integrate IT cost optimization initiatives with sustainability programs. For example, German CIOs can adopt business requirements relating to energy consumption, management of hazardous and toxic substances, information about product ingredients and emission trading. German CIOs can leverage IT technologies to assist their enterprises in measuring and comparing cost performance through applied business intelligence (BI), for example.

Option 1: Cloud Computing

Through cloud computing, German CIOs can quickly leverage highly scalable IT-based competencies and capabilities as services. Cloud-computing-based solutions include a variable compensation and payment scheme, a highly automated IT architecture and a virtual IT infrastructure to deliver the services. The value of cloud computing goes beyond the technological innovation and expanded services' enabled business model: Cloud computing also offers CIOs the opportunity to optimize costs in server procurement, licensing and data center energy supply.

Option 2: Multicore Server

In the new multicore server era, the integration of several processors with generally the same clock speed in a single server unit delivers additional value. As such, German CIOs can rapidly change their IT performance approach from capacity-based cost calculation to a per-thread basis and also shrink the application life cycle. With multicore servers, CIOs can introduce parallel computing selection criteria for software.

Option 3: User Interface

Unfortunately, we have found that it is difficult to evaluate the economic advantages of introducing innovative user interface technologies. Although marketed as open and standards-based, many of these innovations still require customary alignment. We recommend that CIOs assess the value of business process performance as well as client and employee satisfaction. The business will benefit from improved enterprise Web presence, social values and the cost advantages associated with improved efficiencies in a business process or lower support cost.

Option 4: Virtualization

Virtualizing a data center or an end-user workplace, for example, is an important innovation in IT infrastructure and for IT operations. German CIOs will find value from virtualization because it delivers innovative IT infrastructures with enhanced flexibility and additional cost-saving opportunities in energy and facilities, as well as through a fixed contract term. Virtualization can also boost an organization's corporate social responsibility programs through reduced carbon dioxide emissions.

Option 5: Communications and Mobility

German CIOs could optimize costs by investing in technologies that improve the efficiency of fixed and mobile communications technologies. For example, an organization's adding the component "location" to CRM applications will enable cost-efficient customer service delivery. The introduction of thin-client mobile applications for various types of mobile devices helps to make the Mobile Web cost-effective. The Mobile Web will be the key business-to-employee and business-to-consumer technology in the future.

Unified communications is a vital approach — specifically for German CIOs who own an infrastructure environment containing multiple distinct and proprietary tools, which are expensive to maintain and upgrade to new software solutions (see "How to Develop Your Communications Effectiveness Index" and "Measure Productivity Benefits of Unified Communications Ahead of IT Cost Savings"). Converged Internet Protocol (IP) technology that allows single-sign-on profile, together with calendar video and conferencing tools, will deliver collapsed platforms that optimize communications costs and enhance productivity.

Option 6: Open-Source Business Intelligence

German CIOs are advised to always subscribe to the fee-based service agreements to guarantee product support, unless the tools are used only in nonproduction test environments. While larger vendors have reasonable support structures, some open-source BI projects are solely supported by the open-source community and without any SLAs. Open-source BI delivers German CIOs an immediate cost advantage through optimized software licensing costs.

German IT Market

In 2009, German buyers will have opportunities to involve providers in transformational business-process-led projects, such as the disintegration of legacy ERP systems, because the organizations will undertake strategic repositioning initiatives. For example, buyers could use the economic downturn in Germany to acquire market share or clients, divest from operations, or seek to dramatically improve business process performance. As a benefit to buyers, German providers can increasingly be measured for their cost optimization contribution through the projects they implement.

Offshore IT professional services providers in Germany, such as Cognizant, Hexaware Technologies, Infosys Technologies, Tata Consultancy Services and Wipro Technologies, achieved revenue growth rates exceeding 40% in 2007 (see "IT Services Europe: Forecast Database"). An increased offshore provider presence will accelerate the cost-competitive market dynamic for service providers in 2009. However, CIOs and leaders of cost optimization initiatives should carefully assess business terms and the wider competitive German IT services market before signing professional services contracts for any of the 11 options.

CIOs can leverage advances in technology, such as multicore server, to reduce energy costs in Germany or integrate IT cost optimization with programs and initiatives adopting environmental and sustainability policies and regulations, such as energy consumption certifications, hazardous and toxic substances management, or emission trading. German CIOs can leverage IT technologies to assist their enterprises in measuring and comparing cost performance through applied BI (for example, we found German enterprises to be generally at an early stage of maturity in applying BI).

German CIOs also will need to improve the efficiency of fixed and mobile communications services and devices, as well as the exchange of and access to work tools, applications and data files for mobile knowledge workers. Unified communications will become a vital approach for German CIOs who own an infrastructure environment that contains multiple distinct and proprietary tools and applications, which are expensive to maintain and upgrade to new software solutions. Converged IP technology that allows single-sign-on profiles, together with calendar video and conferencing tools, will deliver collapsed platforms that reduce costs and enhance productivity. However, German CIOs must, as usual, carefully assess risk factors of any of the technology sourcing options.

Conclusion

Cost optimization options are not expense-free and usually require an upfront investment, which demands organizations have access to, and availability of, capital that is sourced, for example, from bank-approved credit lines. Buyers must invest first in cost optimization initiatives to realize the economic benefits. However, not all types of IT services or IT products will be equally relevant for cost optimization decision making for German CIOs or leaders of cost optimization initiatives. Despite economic challenges, there are still essential IT projects and investments in the areas of compliance, risk and financial controls that are considered “must do” by German CIOs. Not all German industries will be equally affected. Those less affected by the economic climate will continue to grow stronger. Furthermore, demand for some IT solutions, such as BI, will continue.

Overall, German CIOs should think long term, even when they plan tactical moves to optimize costs during the current downturn. Any tactical change should strengthen an overall plan for long-term strategic enterprise growth and should improve market competitiveness so that the organization emerges from the recession even stronger.

RECOMMENDED READING

"Leverage a Multitier HR Service Delivery Model to Improve Efficiency"

"Predicts 2009: Banks Will Embrace More Outsourcing to Cope With Market Volatility"

"IT Services Europe: Forecast Database"

"How to Develop Your Communications Effectiveness Index"

"Highlights of the German Technology and Strategy Summit, 2008"

"Findings: IT Projects Rarely Being Canceled, Despite Gloomy Economic Outlook for 2009 in Austria and Germany"

"Measure Productivity Benefits of Unified Communications Ahead of IT Cost Savings"

"Findings: Service Providers in Austria and Switzerland Keep Positive Business Outlook for 2009 Despite Fears for Recession"

"German Perspective: Demand for Consulting Services in 2009"

"The German Professional Services Market"

"Assess Four Factors Before Renegotiating Outsourcing Contracts"

"Renegotiate Outsourcing Contracts Early to Cut Costs"

"IT Outsourcing Success: Formalize Cost-Cutting Requirements for Outsourced Services"

"Q&A: How Can ERP Recurring Costs Be Contained?"

"User Survey Analysis: The Next-Generation Communications Consumer, Germany, 2020"

"Hype Cycle for Business Intelligence and Performance Management, 2008"

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