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Being Bold and Agile

How the Chief Information Officer Can Help Beat the Downturn—Part II

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The first paper in this series, which focused on the implications of the economic downturn for IT, outlined a framework to help chief information officers and IT departments develop an action plan—including a "Plan B," or actions to be taken in the event that conditions have reached crisis levels.[1] Since then, we have had many discussions with CIOs, run workshops with a number of IT leadership teams, and worked closely with several clients on the development of IT action plans. In this second paper, we take a look at what CIOs are actually doing in response to the downturn. We also highlight several case studies and point to other actions that CIOs might want to consider.

Clearly, there is a lot of doom and gloom in the economy—and for good reason. As The Boston Consulting Group has written elsewhere, the "good old days" are gone and businesses have been and will continue to be challenged in many fundamental ways.[2]

But the downturn has a silver lining. Many companies will be presented with a rare opportunity to embark on truly transformational change—whether it be a unique M&A opportunity or the launch of a new, technology-enabled (or in some cases even technology-driven) business model. This will be change that would not have been possible in more comfortable times. And IT executives can and should play a critical role in helping these companies take advantage of such opportunities.

To be effective in this role, though, CIOs will have to act boldly and with agility—characteristics generally not associated with IT. CIOs will also need to be able to think in terms of scenarios and become comfortable with ambiguity.

Obviously, this will not be easy. But for those CIOs who can surmount the challenges and seize the reins, the payoff for their companies, during both the downturn and the eventual upturn, can be substantial.

In short, now is the time for the CIO to act—and to lead. As one client put it, "A crisis is too good an opportunity to waste."

CIOs *Are* Acting—But They Need to Do More

Many CIOs have developed downturn plans for IT. Those plans have typically been driven by a directive from the top of the company and are focused primarily on cost reduction.

Clearly, cost reduction is critical in the current environment. And the actions IT organizations have taken are delivering results. We recently reviewed more than 60 IT cost-reduction projects and found that such efforts have delivered on average a savings of 20 percent and a potential savings of as much as 45 percent of targeted elements of the IT cost base.[3]

Few plans, though, incorporate scenario-based options that reflect existing or potential uncertainties. Similarly, only some plans address future capabilities, the protection of key IT investment initiatives, or the continuation of broader transformation efforts. And very few CIOs have developed a Plan B, which not only identifies the absolute minimum level of IT service that must be provided to keep the company operational but also maps out a way to get to that level quickly if necessary.

1. See *Demonstrating Leadership: How the Chief Information Officer Can Help Beat the Downturn,* BCG White Paper, November 2008.

2. For a comprehensive discussion of the economic downturn, see BCG's *Collateral Damage* series.

3. Interestingly, if this was a company's first IT cost-reduction effort, the average savings were 24 percent. But even if it was the second, third, or fourth round of cost cutting, the average savings were still a relatively high 17 percent.

We now turn to two companies whose CIOs have been attempting to strike an optimal balance between their company's near-term financial constraints and the actions that should be taken in order to secure long-term competitive advantage.

Case Study 1: A Global Leader in Branded Apparel

Martin Schneider is the global CIO of VF Corporation, known for such brands as The North Face, Wrangler, Kipling, Nautica, and many others. IT at VF is in continuous transformation, in line with the business. Schneider's key goal is to make the IT organization flexible enough so that it can "turn up and turn down" the supply of technology as necessary to fully support the business's needs.

In response to the downturn, and using the framework presented in the first paper in this series, Schneider and the IT organization developed and launched a series of actions to reduce short-term costs, optimize IT investments, manage human resources, enable business transformation, and transform the IT function itself.

Reduce costs in the short term. IT at VF has increased its existing efforts to reduce IT costs. It has delayered the IT organization and optimized spans of control. It has reduced external spending by optimizing Microsoft licensing agreements, reusing hardware, and renegotiating third-party contracts. Its desktop-refresh program is no longer using new computers but taking unused machines out of stock. Last but not least, IT has reduced service levels for the business to lower business-driven IT costs, something to which the business has been much more receptive than in the past.

Optimize investments for business value. VF's Information Technology Executive Council has been reviewing the IT project portfolio and making stop/start/modify/continue decisions. As a result, overall spending on the IT portfolio has been reduced but not significantly, as VF remains committed to building strategic IT capabilities. Improved inventory management is currently one of the key business capabilities that IT helps to deliver.

Manage the human resources agenda. Schneider believes that people have been at the heart of the IT transformation within VF and that the downturn makes the human resources strategy even more critical. In response, the IT organization has conducted a thorough review to ensure that the right people are in the right jobs and has sought to foster an environment in which the IT community feels valued and engaged. IT has also worked to maintain strong information-sharing and communication capabilities, which Schneider views as critical. And although the IT skill sets necessary to support the company's wholesale and direct channels are different, Schneider has combined both organizations to create a single, unified culture.

Enable business transformation. All of the above initiatives have contributed to VF's ongoing business transformation. But Schneider believes that IT can do much more. He has instituted steps to help IT enable the business by leveraging future technologies and process-change capabilities. He is also positioning IT as a true business partner—by, for example, securing IT a seat at the innovation table.

Transform the IT function itself. VF is in the middle of its IT transformation. According to Schneider, the downturn has not fundamentally changed the transformation's strategic raison d'être. It has, however, changed the timing, and some things have been accelerated while others have been slowed down. Overall, though, he says the pace of the transformation has increased.

Schneider has not yet established a formal Plan B, but he is considering one. In any case, however, he thinks VF would be in a relatively good position to execute a plan B—he is utilizing the services of external partners, which would enable him to reduce his cost base quickly because he has variabilized most of his cost base through these third-party contracts.

Martin Schneider's vision is clear: VF has to create a culture in which the people—both in the business and in IT—embody the brand. IT has to become a true business partner, with its executives working together with the rest of the company's leadership in an open, collaborative manner. The downturn will have an impact on the development of this transformation, but it will neither stop it nor change its direction.

Case Study 2: The European Division of a Global Media Conglomerate

Scenario-planning workshops for CIOs and their management teams can kick-start the development of a downturn plan and a Plan B. (See the sidebar "Scenario Planning Is Key to Any Transformation Effort.") Core to effective scenario planning is the definition of a limited number of realistic scenarios (typically four) that can be described along two dimensions representing key uncertainties, such as the business environment and consumer behavior. In the case of a global media conglomerate, the company's IT leadership team defined the two dimensions as follows:

- Business stability
  - Low: industry profits down by 50 percent; interest rates down to 0 percent; more nationalization of banks and other companies
  - High: stable profits, as in 2007; banks making profits; interest rates at 2 percent
- Consumers' propensity to spend
  - Low: consumer spending down by 20 percent; unemployment reaching 15 percent
  - High: consumer spending near 2007 levels; employment stable at 2007 levels

The resulting four scenarios were given catchy and memorable titles: "Ebenezer Scrooge," "Happy Days," "Market Opportunity," and "Last Man Standing." (See the exhibit "Defining Scenarios Is the First Step in Scenario Planning.") Once the scenarios had been identified, breakout groups analyzed each one and developed hypotheses about the overall business environment, likely winners and losers, and the implications for business and IT.

On the basis of the scenario outputs, the team defined *no-regret moves, option plays,* and *bets.* The no-regret moves included a number of existing initiatives:

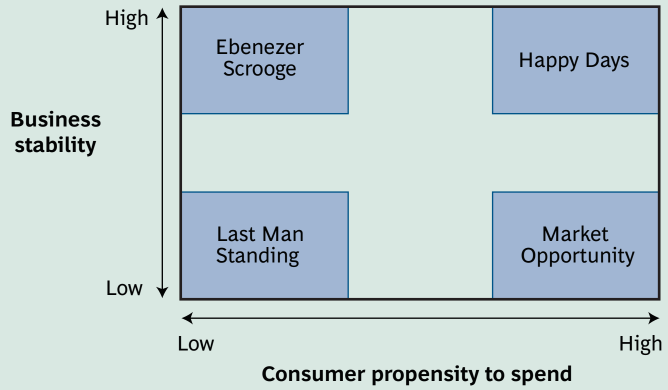
- an efficiency improvement program
- selective outsourcing with expert partners
- contract renegotiation with suppliers and strategic partners
- investment in specific digital opportunities

Scenario Planning Is Key to Any Transformation Effort

Scenario-planning workshops are an effective tool for sharpening the mindset of the company's leadership and getting alignment among senior executives. They also provide a structured way not only of identifying and executing *no-regret moves* but also of defining and monitoring trigger points for the execution of *option plays* and *bets* in uncertain times—that is, now. No-regret moves have a positive impact in some scenarios and a neutral effect in others. Option plays have positive but different impacts in several scenarios; they also build a foundation for future moves. Bets have a positive impact in one scenario but have some risks attached. The outputs of scenario-planning workshops not only will enable the CIO and the IT function to tackle the downturn as a team but will also deliver ideas to the company's executive team for new IT-enabled business models and disruptive, game-changing actions.

Defining Scenarios Is the First Step in Scenario Planning

A global media company's four scenarios



Source: BCG analysis.

The team also identified additional no-regret opportunities that it felt should be launched immediately:

- the rationalization of applications
- a review of roles and skills in the IT function in the context of the downturn
- the development of a plan for talent retention
- investment in developing better insight into consumers and customers

The option plays were largely new opportunities that were not part of any current plan. These included the following:

- the creation of a new business proposition based on customer insight
- the establishment of postmerger integration capabilities
- more-radical outsourcing and offshoring
- the development of a program to significantly reduce business-driven IT costs through certain steps:
  - challenging business complexity—specifically, the number of business functions, business-process variants, products, sites, and business units
  - reducing service levels provided to the business
  - tackling volume-driven IT costs by rationalizing the number of users and attempting to renegotiate licensing costs and service and support contracts

Some of these actions are now being implemented by the CIO.

The bets included the following initiatives:

- the launch of disruptive, game-changing business models (for example, models based on the exploitation of existing distribution channels and the development of "pick and pack" order-fulfillment capabilities)

- substantial additional investment in technology-enabled business transformation (for example, development of the "newsroom of the future")
- more-radical platform decisions (such as a significant expansion of the ERP footprint—that is, the number of internal processes supported by enterprise resource planning software)
- elimination of all capital expenditures

Last but not least, the CIO and IT leadership team discussed the development of a Plan B. This was clearly an uncomfortable discussion. Ultimately, though, the team considered it a productive exercise. The team determined that, in a Plan B–type scenario, they would stop all new projects, freeze any functional change on all systems, and eliminate all discretionary spending (for example, on training and travel). Through these measures, the IT project portfolio would be cut to practically zero. The team also determined that it could cut operations costs by 40 percent by taking a series of radical steps—such as minimizing maintenance, adopting an "as it breaks" replacement plan for equipment, and significantly reducing service levels across the board.

Overall, the CIO and his leadership team viewed the scenario-planning effort as a valuable exercise. It confirmed that they were doing the right things in their current transformation plan and gave them some new ideas. It also provided them with an opportunity to discuss some business opportunities and strategic moves with other company executives. And it forced the team to acknowledge the possibility of and formulate a response to a Plan B–type scenario.

Keys to Success in the Downturn: Bold Moves and Agility

The downturn has thrown the notion of "business as usual" out the window. Companies must be prepared to act swiftly and decisively to address potentially sizable near-term cost pressures. Simultaneously, firms must be ready to act boldly and seize opportunities that present themselves—opportunities that stand to translate into long-term competitive advantage.

And some companies are doing precisely that. For example, one of the leading European mobile operators has embarked on a fundamental transformation of its technology function, which it calls "50/50/50." The aim is to reduce costs by 50 percent, improve time to market by 50 percent, and improve the return on technology investments by 50 percent. Clearly, this is an ambitious target but one that, if realized, will make IT and the business much more agile and better able to implement the company's fast-changing strategic agenda.

For most CIOs, though, two key questions remain—*what* are the bold moves that I should execute and *how* can I create a more agile IT function? Below we offer some thoughts.

Fundamentally Restructure IT Costs

Most IT cost-reduction exercises have been focused on "finding the next 10 to 15 percent." However, we are now seeing more and more radical moves from IT organizations—including targeted cost reductions of 40 to 50 percent—driven by a fundamental restructuring of many industries. Banking is at the forefront of these efforts; other industries will follow.

One of the German Landesbanken is currently going through this restructuring process, aiming to deliver a 40 percent reduction of its existing IT cost base. The bank expects to achieve the initial 15 percent through a renegotiation of supplier contracts and optimization of the IT organization, and the remaining 25 percent with a combination of business-driven IT savings (for example, a reduction of service levels) and head-count-related savings (for example, a reduced number of desktops and workspaces owing to layoffs and attrition). Although the target is ambitious, the bank has a clear plan in place to deliver these savings.

Invest in Innovation

Like previous recessions, today's downturn will lead to a significant increase in the number of innovations. Technology will play a major role in most of these. Companies that create a dedicated innovation team with a dedicated budget and that implement a structured approach and process to innovation management can expect to see a payoff in the medium to long term. They can also expect to develop some short-term innovations that they will need in order to survive the downturn.

A global insurance company that is currently using mechanisms such as Web-based tools and innovation forums to capture new ideas has recently appointed a new head of innovation within the IT function. With a small team and a dedicated budget, the CIO wants to send a clear message to the organization that innovation is at the top of his agenda, particularly during the recession. Working closely with a small team on the business side and reporting to the head of strategy, the innovation team's aim is to deliver growth opportunities for the downturn and beyond.

Invest Selectively in New Strategic Platforms

"Renovating in winter"—that is, investing in new capabilities when market conditions are challenging—is not something companies typically do. However, there is a clear rationale for why CIOs should consider it now. Doing so would send a clear signal of confidence to customers and markets; it would create capabilities that should reach maturity in time for the upturn; and it would help retain the best talent by providing them with an important and strategic initiative to work on. This is a particularly relevant consideration for IT departments with a large in-house organization and, hence, substantial discretionary resources.

In banking, the economic crisis has forced many players to postpone major IT renovation programs. However, a growing number of banks are increasing their efforts and investments to create a more cost-effective bank for the future. More than half of the 13 banks worldwide that have more than $2.5 billion in Tier 1 capital and are rated AA or better by Standard & Poor's have undertaken or are planning to undertake a modernization of their core banking systems.[4]

Develop the Next Generation of IT Talent

A recession is the best time to hire top talent. The pressure to reduce head count will make high-performing IT professionals consider leaving their current employers, either because they are directly affected or because they are no longer motivated to work for the company. This is the talent that most CIOs desperately need in order achieve a step change in the performance of the IT function. Of course, space has to be created for this new talent: this can be done by tackling organizational inefficiencies through delayering and a focus on rigorous performance management.

The recession also presents an ideal opportunity to staff the IT organization with the right *type* of talent. Although IT departments have come a long way over the last decade and have developed great new capabilities and delivered them with a high degree of professionalism, the typical psychological profile of a technologist, in Myers-Briggs terms, remains "ISTJ."[5] These individuals tend to be focused, detail-oriented, and organized. There is nothing wrong with this personality type. However, the "S" indicates the need for certainty, clarity, and structure—that is, a clear plan. Needless to say, what is required of IT staff in a downturn is an "N"—someone with the ability to deal with ambiguity and thrive in uncertain situations. Hiring "N"-type individuals might require tapping different resource pools and considering people with backgrounds that are different from those of the "traditional" technologist. Very often, CIOs can find these individuals within the organization—on the business side.

Also, the next generation of IT professionals is accustomed to working in communities and within broad corporate ecosystems that promote collaboration in order to develop solutions more quickly. These individuals are eager to work with a new generation of IT-literate executives who are willing or actually want to engage in a technology discussion because they can see the tremendous value that IT can deliver to the business.

A leading telecommunications company is exploring this opportunity at the moment. The chief technology officer has kicked off a program to identify top talent and is proactively seeking to hire "N"-type

4. See *Renovate in Winter: Taking Advantage of the Downturn to Modernize Core Systems in Banking,* BCG Focus, May 2009.

5. Myers-Briggs testing attempts to gauge how people perceive the world and make decisions. Individuals are rated on four biases or predispositions: extraversion (E) versus introversion (I), sensing (S) versus intuition (N), thinking (T) versus feeling (F), and judging (J) versus perceiving (P).

professionals into the IT organization. Some of his teams are embedded directly in the business—for example, his innovation team is physically located with the business strategy team.

Finally, it is critical that all hiring decisions be viewed through the lens of strategic workforce management. The IT organization's role and scope have evolved significantly in most companies—IT is now a business partner and an orchestrator of a complex ecosystem rather than simply a supplier of IT services—necessitating a much broader range of skill sets than in the past. The IT organization must now be strong in such areas as marketing and communications, business-case development, risk assessment, competitive analysis, portfolio management, and customer-relationship management. Only through strategic hiring can such skills be acquired.

Hiring decisions should also reflect the changing size requirements of IT organizations. The establishment of specific new capabilities might entail adding personnel, while better vendor management or a change in the company's projected long-term revenues might call for a reduction in head count.

Create Trust-Based Relationships with External Partners

Third parties are playing an ever-increasing role in the IT and business operating model. As we discussed in a recent article, we strongly believe that organizations have to develop trust-based relationships with their strategic partners.[6] In particular, in these uncertain times, a common agenda and shared key performance indicators (KPIs) and goals will lead to cooperation that will enable agility and flexibility. And the time to focus on these relationships is now, as the outsourcing and offshoring landscape is changing. There will be a wave of consolidation, as in other industries; and there will be winners and losers.

A leading auto manufacturer demonstrates the type of value that can be derived from greater reliance on trust-based relationships. Whereas the typical auto industry OEM devotes only 10 percent of its sourcing to trust-based relationships with third-party suppliers, this company devotes fully 48 percent.[7] This emphasis has delivered real results: the company's procurement productivity, measured as the inverse of transaction costs, is between two and five times higher than that of other OEMs.

There is an uncertain road ahead for most companies. But an engaged IT organization can improve a company's prospects significantly. IT can help the business react quickly to changing market conditions and execute necessary cost-reduction initiatives. IT can also help in seizing M&A opportunities and launching technology-driven, industry-shaping moves that position the company optimally for a recovery.

To provide this level of support, CIOs and IT organizations will need to make some radical moves and be comfortable with a high degree of uncertainty. But those that get it right will help make their companies winners—and establish IT as a core capability that creates competitive advantage.

6. See "Reinventing the IT Organization: Five Strategies for CIOs," which appeared in *IT Advantage: Putting Information Technology at the Core of Business,* BCG Report, February 2009.

7. BCG global IT management benchmarking.

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