

# **Preparing for renewed growth: Setting strategy for IT and the business**

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## Preface

*Preparing for renewed growth: Setting strategy for IT and the business* is an Economist Intelligence Unit executive summary, sponsored by CA. The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit's editorial team wrote the report, and the findings and views expressed do not necessarily reflect the views of the sponsor. Robert Hertzberg was the author of the report and Debra D'Agostino was the editor. Mike Kenny was responsible for layout and design.

The report was based on desk research and in-depth interviews with several business executives around the world to understand how their companies are planning strategies for economic recovery. Our thanks are due to all interviewees for their time and insights.

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## Executive summary

If there is a bright side to a recession, it is that it forces companies to set frivolous projects aside and focus only on those that clearly produce value for customers and shareholders. In the area of information technology (IT), this often means bowing to the reality, according to Peter Whatnell, CIO at Sunoco, that “your job is not to provide interesting work for recent computer science students” but rather to ensure that initiatives have tangible business merit.

In turn, by focusing on value, and putting a company in a position to create that value, the pay-off can be considerable when the upturn arrives. A streamlined company is more adept at capitalising on opportunities and minimising waste.

Indeed, by forcing technology and business executives to narrow on basic measures of value, the economic downturn has positioned them to partner more effectively when the global economy begins to recover, a development for which there are a few cautious signs. Economic growth will not bounce back to the levels seen in 2006 and 2007, but is expected to recover slowly in many parts of the world. The most recent forecast by the Economist Intelligence Unit shows GDP in the world’s biggest economy, the United States, advancing a mere 0.7% in 2010, after an expected 3.1% decline this year. GDP in the euro area will continue to shrink, while GDP growth in China, which is expected to be 6% this year (compared with double digits earlier in this decade), will increase slightly next year, according to the Economist Intelligence Unit.

While the recovery will be slow, companies are not standing idly by. Executives interviewed for this paper say they are preparing for renewed growth by:

- adopting more disciplined practices to approve and track IT investments as they pertain to business initiatives;
- ridding their companies of waste, which may include redundant efforts as well as inefficient systems;
- finding ways to keep and train their most valuable IT workers; and
- favouring IT projects that produce tangible value for customers.



## Introduction

At the beginning of 2009, Joseph Eckroth, CIO of Hertz Global Holdings, sat down with his fellow executives to discuss, in detail, the rental car company's IT priorities. The objective was to put Hertz's upcoming initiatives into three lists—*maintain, evaluate further, defer*. It was an essential moment of reassessment for Hertz; its revenue had contracted because of falling demand for its rental cars and heavy equipment.

At a governance committee meeting a couple of months later, executives went deeper. "I had the CFO and the head of supply chain and corporate functions on the phone," says Mr Eckroth. With the help of his business colleagues, Mr Eckroth went through the lists of IT projects, identifying the ones that were going to detract from the bottom line in 2009 and putting many of them on hold. A lively debate arose over an IT project favoured by business executives—globalising the company's popular rewards programme. Mr Eckroth argued that globalising this would strain IT resources at a time when those resources were already stretched thin. After some debate, his colleagues agreed with him, and the project was put on hold.

Mr Eckroth expects to maintain the same level of debate and communication when the economy improves and some of the budgetary shackles ease up. "My absolute objective will be not to lose the discipline that we have worked hard to gain," he says. "It's way too easy, as things start to tail back up, to get undisciplined and sloppy. If we remain in lockstep around business priorities, we're going to be able to accomplish more, with fewer resources."

Unsurprisingly, companies are being forced to make hard decisions about how to allocate IT resources. Following the banking crises of 2008, the world is in the midst of its worst recession in decades. According to the Economist Intelligence Unit, every major economy of the world with the exception of China will contract in 2009. Recovery in 2010 will not be at all dramatic: the Economist Intelligence Unit expects global GDP growth to be about 1% in 2010, far slower than the GDP growth rates coming out of the 2001 and 1991 recessions.

Like Mr Eckroth at Hertz, CIOs around the world are recommitting to practices that put them in synch

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*Joseph Eckroth, CIO, Hertz Global Holdings*



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with the business, during good times as well as bad. Those practices include setting up IT business teams to judge and follow through on capital IT projects; driving efficiency into, and costs out of, their operations; making sure the right skills are retained, even as some staff resources inevitably decline; and using customer value to determine where to make investments. CIOs are not doing this through some mere mapping of their activities to a business plan; instead, they are putting themselves, and their people, where the business decisions are being made.



#### Key takeaways

- Some firms have created steering committees to decide on new IT investments.
- Other firms require IT to justify the business case before approving new projects.
- Projects are more frequently reassessed to ensure they are on track.

## Using IT business teams to pick and manage projects

The use of steering committees to approve IT projects is not new. But what has changed in the economic downturn—and what is likely to help when a rebound comes—is the increasingly clear hurdles that IT projects must surmount.

At Sunoco, a US\$54bn oil and gas giant, an executive steering committee is trying to get its decision criteria, according to Mr Whatnell, “down to one sheet and three measures”—economics, strategy and risk. The economic piece is quantitative, measuring the project’s probable return on investment, and the strategy piece is qualitative, lining up the project against some business initiative. Risk looks at two things: the implications of not doing the project and the downside of doing it and discovering “that it’s a dog”, says Mr Whatnell.

The biggest IT expenditures at Sunoco require the approval of the company’s capital steering committee, which consists of eight executives, seven from the business side plus Mr Whatnell. However, as Philadelphia-based Sunoco has embraced a strategy of being a low-cost energy provider, Mr Whatnell has taken on the additional responsibility of personally approving all IT capital projects that do not rise to the level of the steering committee. This is the company’s way of making sure that even small IT investments are well thought out.

“That’s the right way for us to allocate resources,” says Mr Whatnell of his increased oversight role, given Sunoco’s goal of watching its costs. A recent centralisation of the IT function should likewise make it easier for Mr Whatnell to contribute to the broader business goal of cost containment. “When we were decentralised, each business unit essentially had a pot of IT capital projects money,” he says. “Now there’s one IT funding pot,” making it easier for him to keep an eye on it.

Of course, not all companies have the large IT budgets found at Sunoco. But that does not mean that determining return on investment (ROI) should be any less critical. Since the beginning of 2009, for instance, Park Ridge, New Jersey-based Hertz has required managers requesting any technology investment to justify those investments on the basis of what the company calls a high-level business case

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(HLBC). Created by Hertz's finance department, HLBCs are automated spreadsheets which managers populate with assumptions; when that is done, the programme automatically calculates an ROI.

In addition to this bottom-line number, the HLBC process has two built-in control mechanisms. The first is that a controller at the business unit must vouch for the assumptions. The second is that the projects get reviewed, after the fact, by Hertz's audit department. "It shines a bright light on these projects," explains Mr Eckroth. "There are people who used to say, 'I want to do this project,' and would just start mapping out the specifications. Now, the projects that are coming up for prioritisation are much better thought out—and they're a lot more credible." By illuminating the financial return on IT investments, the HLBCs are drawing attention to the outcomes that Hertz expects from technology, and engendering conversation between the business and IT.

One IT business initiative that has had no problem getting approval at Hertz is its roll-out of self-service kiosks. Launched in 2008, the kiosks address customers' pet peeve, of which Hertz's rental car managers have long been aware, that people renting cars hate to stand in queues. The kiosks are part of a process that customers can begin on the Web and allows Hertz to guarantee that they will not have to spend more than ten minutes at a rental location. Each kiosk costs roughly US\$17,000 to set up, and, in addition to reducing waiting times, Mr Eckroth estimates that each kiosk removes the need for up to two customer-service people. He says the business case for that was easy to justify, even taking into account the maintenance costs of the kiosks.

### Staying aligned through informal means

Processes and structures—including IT steering committees, ROI calculations and project management offices—can go a long way towards ensuring that IT is aligned with business needs. But according to Peter Whatnell, CIO of Sunoco, they are no guarantee. These structural formats "come and go", says Mr Whatnell, who is also the president of the Society for Information Management, an industry association for networking and sharing ideas among IT professionals. "My personal opinion is that it's your attitude of mind that is really key."

In Mr Whatnell's view, the technologists who earn reputations for being the best business partners generally demonstrate three attributes. The first is a genuine understanding—not a generic one—of how their companies make money. The second is that they understand how to operate within their companies' cultures. And the third is that they are not in love

with technology for its own sake—they do not let themselves get pigeonholed as "geeks". "Speak in plain English, not in 'tech-ise'," Mr Whatnell advises. "That keeps the playing field level."

Other ways of developing that goodwill can be surprisingly straightforward, such as showing respect for other managers' time. For instance, even though the top technology executives at all of Hertz's business units report to Joseph Eckroth, the CIO, they are under strict instructions to treat the business units' daily needs as a priority.

"My philosophy, when push comes to shove and you've got to make a decision whether you're at my meeting or the business unit's meeting, is don't think twice about it—default to the business meeting. You and I can always catch up later," Mr Eckroth says.

This does not mean that technologists should sit back and let the business people make all the decisions. "We're not there to take notes," Mr Eckroth points out. "We're part of the process. You should always have an opinion. I make sure my direct reports understand this."



The initial decision of whether to proceed with an IT investment is not the only process that IT business teams have been fine-tuning as they look towards an economic recovery. At Allstate Insurance Co. in Northbrook, Illinois, the way ongoing projects are tracked has also changed, according to Patricia Coffey, the company's vice-president of technology. "We have more frequent tollgates now, and may look at more leading indicators, such as whether the project is on schedule and adhering to its budget," she says. Adding these checks and balances allows the firm to "make calls sooner to stop things that may not be on track".

While it is in part a reaction to last year's downturn, this more frequent assessment of projects will also serve the company well as the economy rebounds. "It's the same management principle," Ms Coffey confirms. "It's just that when times are good, people get a little lax, just like they get in their personal budgets."

The answer to one very simple question, "Do you have your initiatives on a schedule?", can sometimes reveal much about the quality of IT business partnering at a company. Chris Curran, CTO at Diamond Management and Technology Consultants in Chicago, says he frequently asks new clients this question, along with a more detailed follow up such as, "Can you say which 12 things you're going to do over the next three years, and how much it's going to cost you to do it?" While most companies have a clear conceptual picture of which technologies will be important to them today, fewer have a detailed roadmap they can use to measure their progress, Mr Curran acknowledges. To set strategy in this way can be useful in identifying projects that are not proceeding satisfactorily—and that can be eliminated, reducing needless expense.



**Key takeaways**

- Reducing waste includes not only IT hardware, but redundant systems and employee efforts.
- Rationalising systems during a merger can go a long way to reducing complexity.
- Controlling labour costs can also eliminate unnecessary costs.

## Being efficient about platforms and costs

Most big companies have at least some waste, and those that have gone through significant changes, whether because of downsizing or merger and acquisition activities, tend to have a lot.

Another pragmatic way in which companies are preparing for growth is by getting rid of waste and redundancy in their systems and processes. Most big companies have at least some waste, and those that have gone through significant changes, whether because of downsizing or merger and acquisition (M&A) activities, tend to have a lot. Often, this waste encompasses not only an abundance of unnecessary IT hardware or software, but a redundancy of effort among workers, leading to wasted expenses and man hours.

Reducing this waste and simplifying the platforms and processes in use often makes companies more nimble, and makes it easier for them to pursue new opportunities, notes Mr Curran at Diamond Consulting. Mr Curran has been working to rationalise the IT systems at an insurance holding company that operates primarily in the Western part of the US. He believes that the company is better at sales and marketing than it is at back-office operations. “They’re looking at some acquisitions that are going to let them build out a different footprint geographically,” he says. “To do that, they’re leveraging this idea of a common platform. They’re getting ready for scaling.”

In the case of an insurance company on the verge of acquiring and merging businesses, the rationalising of systems is essential to incorporate new “books of business”, the insurance industry’s term for customers. System rationalisation can also be useful at a company that has already done an acquisition if there are administrative processes that have not been consolidated. A good example is closing the books; if two merger partners do this in different ways, it may be that the acquirer is spending time printing out the reports of the acquired company and manually rekeying the information into its main system. According to Mr Curran, it is far better to collapse the two systems and adopt a single process.

Rationalising systems is not only important in companies involved in M&A; it can be equally important in enabling organic growth, notes Mr Curran. This is because the product introductions that often lead to organic growth cannot usually be rolled out as quickly when there are big inefficiencies in IT systems—what Mr Curran calls “a waxy build-up”. “When you clean up these systems, you remove and rationalise



a lot of brittleness,” he explains. “That speeds up the ability of a lot of these businesses to get changes faster in the future. This is a fundamental systems design point.” Common systems also make it easier for one business unit at a company to take advantage of applications and processes in use at another.

Mr Curran’s firm is working on several improvement projects of this sort, and he says these projects tend to have two phases. The first, lasting two to four months, is really about fact-finding: understanding which systems are in existence and how the company is using them. The second phase is about prioritisation: identifying places where waste can be eliminated. In this phase, according to Mr Curran, a company may find that it can “remove 20 servers and 100 licences and redeploy 27 people in maintenance”.

Mr Curran believes that customer relationship management (CRM) and enterprise resource planning (ERP) are two areas where there are especially likely to be inefficiencies. While a company may have intended to move everything to a new CRM or ERP system, in many cases late-stage scope changes prevent that from happening. “A lot of times, there are people who are hangers-on to an old system,” he confirms. “One thing that IT can do is go back and make sure everything that can be shut off, is shut off. That lets you reduce licensing costs for hardware and software, and allows you to reposition people.”

Ms Coffey at Allstate agrees that companies can remove the obstacles to future growth by identifying and eliminating processes, technologies or programmes that may have served a purpose when they were implemented—perhaps to speed up a process or product rollout—but that should now be the target of “spring cleaning”. Allstate has also become more efficient in how it buys technology through a new focus on managing vendor contracts. The IT and procurement departments at Allstate regularly collaborate on IT purchases—a process Ms Coffey estimates has allowed the company to save “hundreds of millions of dollars”.

Allstate has eliminated waste in another way, namely by getting a better handle on its labour costs. In the early part of this decade, about one-half of Allstate’s operating budget for IT was devoted to what Ms Coffey calls “highly paid contractors”. In more recent years, Allstate has been sending much of its coding work to offshore companies, whose rates are considerably lower. “That shift has allowed us to drive down our average labour rate very significantly,” Ms Coffey says.

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*Chris Curran, CTO, Diamond Management and Technology Consultants*



**Key takeaways**

- Training can help IT professionals to work more closely with the business.
- Rotating IT workers into different disciplines ensures that skills remain current.
- Business-side workers should also learn IT skills to strengthen partnerships.

## Keeping the talent that is needed

**“You’re still got to have a balanced organisation when you come out of this. We don’t want our cuts to take the skill away.”**

*Peter Whatnell, CIO, Sunoco*

As they anticipate moving from cash-crunching to expansion mode, one of IT executives’ most important goals is ensuring that they retain, motivate and train those technical workers who are most important to partnering with the business. This is no easy feat, as most CIOs have spent the last nine months on the less rewarding—and often morale-damaging—task of downsizing.

The type of technology employee who is most useful from a business perspective is often one who literally sits at the intersection of technology and the business. At Sunoco, these workers have such titles as “project leader” and “systems consultant”; their jobs are to take business requirements and produce specifications.

Sunoco expects to cut around 20% of its IT costs in 2009—an undertaking that will make it impossible to ensure the retention of every one of its project leaders and systems consultants. “You can’t keep them all when you’re making that big of a cut,” says Mr Whatnell. “But you’ve still got to have a balanced organisation when you come out of this. We don’t want our cuts to take the skill away.”

Transfers are one way of retaining key IT workers. Sunoco is looking to move at least some of its systems consultants out of units where projects have been scaled back or killed, to units that are busier. This is harder than it sounds: a systems consultant in Sunoco’s retail service stations unit, for instance, does not necessarily have the knowledge to do an equally good job creating specifications for the company’s chemicals business. “We’ve got to find some way of making our IT development people more mobile between areas,” says Mr Whatnell. “We’re still working out how to do that.”

Sunoco is among the many big companies that now make a point of asking their technologists to work in the same geographical locations as the business units they are supporting. While this can create challenges in recessions, when resources need to be rebalanced, this decentralisation can be a benefit if it improves communication, and eliminates games of phone-tag between geographically dispersed business unit leaders and central IT managers. It is one thing for a business unit head to call a systems architect 1,500 miles away and ask for an update on a project; it is quite another if that manager can just pop by the



system architect's office for a chat.

Like Sunoco, Siam Commercial Bank in Thailand has in recent months been pushing its technical staff to work side-by-side with business colleagues. "One of the things that is becoming very clear to us is the need for IT people to have business skills and vice versa, because that will lead to closer partnerships," says Deepak Sarup, the Bangkok-based bank's CFO and previously its CIO. "We've [now] placed IT workers strategically in teams where they can leverage their skills and learn new abilities like marketing and customer service. Those skills will also help us when we come out of this mess."

Siam Commercial has also appointed a small team of programmers to experiment with Web 2.0 applications. The idea is to build some prototypes and prepare for a world in which social networks may be part of how a bank recruits workers, in which mash-ups may provide critical customer insights and in which open-source technologies may become the dominant platform for application development.

"Some of this could turn out to be a dead end, but this is one of the capability-building measures that we need to have in place so that we're better positioned whenever we come out of this," Mr Sarup adds.



**Key takeaways**

- Plan strategies around what is most meaningful to customers.
- Focus on building customer loyalty.
- Include IT in discussions about customers to ensure client needs are met.

## Favouring projects of value to customers

To avoid guessing what its customers want, Allstate holds focus groups which technology managers attend along with their peers on the business side.

When money is tight, there is often a heated debate over which technology projects should receive funding. On the surface, the argument from one business unit manager about the need for a new data mining system sounds just as convincing as another manager's case for a mobile CRM application. "We have a lot of really smart people," says Ms Coffey of Allstate. "They all come to the table with good ideas. None of them is going to be silly enough to propose an idea that doesn't have a return attached to it."

Allstate's solution to this conundrum—especially after a year in which its investment portfolio has been pounded, leading to multibillion-dollar losses, and at a time when it is focusing on customer loyalty—has been to favour those projects and initiatives that will be most meaningful to customers themselves. "We've really found we have to put that filter on it," she says.

To the extent possible, Allstate tries to avoid guessing what its customers want. To determine its product development agenda, the company holds focus groups which technology managers attend along with their peers on the business side. This mechanism played a major role in the evolution of Allstate's Your Choice Auto insurance programme, determining the four different service tiers (starting with a platinum package all the way down to a value package) that Allstate settled on, and how they could most effectively be marketed through the company's website. "It was done with iterations provided by customers, in terms of what they thought was important and what they said they were willing to pay for," explains Ms Coffey. The Allstate IT and business people who attended the focus groups heard the same feedback, and that narrowed down their subsequent conversations about what they needed to accomplish.

Indeed, Ms Coffey adds that the best case is when it is impossible even to know, just by sitting in a strategy meeting, which disciplines or functions the attendees come from. "When you're in a really effective group—one that's delivering—what you find is that you cannot tell who's the marketing person, who's the product development person, who's the finance guy, who's from IT," she says. "It's up to us as leaders to create that kind of environment for people."



## Siam Commercial: A cloud computing solution to a business need

As a banking industry executive, Deepak Sarup knows that his company is likely to face more government regulation in the future, including tighter lending standards. But he and his colleagues at Siam Commercial Bank are still looking for revenue growth—and are hopeful that technology will help them to achieve it.

Siam Commercial has 10 million customers, and it sees existing customers, rather than new ones, as the most reliable route to getting new revenue. “We want to increase our wallet share,” confirms Mr Sarup, the company’s CFO. “In this economic climate that’s our priority—to push more to existing customers.”

Siam Commercial has extensive data about its customers, but does not always have the means to get that data into the hands of its 6,000 sales people at moments when they can do the most with the information. So last year, Mr Sarup, who was then the

Thai company’s CIO, travelled with the head of Siam Commercial’s retail unit to the US and Canada, where they held meetings with several banks that were using traditional CRM software. None had had much success with the systems.

Mr Sarup realised simpler might be better in terms of CRM, and in recent months Siam Commercial has begun a pilot project with a leading vendor that uses a Web interface to display back-end sales data. “It’s like doing an Internet search—you get all the context with it,” he says of how the software is working at the ten bank branches where it is being tested. The important thing, he adds, is “getting that capability to the sales people through the Internet”.

If the pilot is successful, Siam Commercial is likely to deploy the new software companywide, at a cost Mr Sarup estimates that could easily reach US\$50m a year but produce a payback ten times that size in terms of new revenue.

Although something like this “has to have very strong IT support, the primary sponsorship has to be from the business”, he adds. “And in this case it was—it was business-led.”

Allstate is not alone in making IT investment decisions based on what it thinks customers will value in the future. Hertz has poured millions into the technology for “Connect by Hertz”, a car-sharing service that will use SMS texting, radio-frequency identification (RFID) readers and in-vehicle navigation to let customers in big cities find and use its rental cars. The idea is to offer a sort of self-service response to Zipcar, the popular membership-based car-sharing service.

“A lot of the innovations we continue to push out to the marketplace do absolutely nothing to reduce cost,” admits Mr Eckroth, Hertz’s CIO. “The real thing is to make us more customer-friendly. We’ve got to look to the future.”

## Conclusion

**W**hile the past year may have seemed like one long retrenchment for CIOs, there is light at the end of the tunnel. The CIOs who will emerge as most successful as the global economy recovers are those who operate out of a fundamental understanding of their company's business needs—and find ways to deepen their relationships with business-side colleagues. While there are many things CIOs can do to ensure they are best positioned to be an effective partner to the business, some of the most effective include the following:

- Find ways for technology workers to gain business unit experience. It is not necessary to move a technology worker into a marketing role per se. Simpler tactics—including locating the worker in the same office as business colleagues—can accomplish the same goal. This is something that Sunoco, Siam Commercial and Hertz all do to one extent or another.
- Assess long-term talent needs and establish programmes to keep key workers. The greatest need is for technology workers who can take business requirements and translate them into specifications. Business requirements management is a talent that companies need to cultivate and reward. Many lower-level technology skills, including coding, can be outsourced.
- Eliminate waste in processes, technologies and initiatives. This is important not just for the cost savings it can produce, but because companies with efficient operations and flexible technology platforms often have an advantage in terms of nimbleness and speed to market.
- Reassess the effectiveness of the processes for evaluating IT investments and ongoing IT projects. Making sure the right projects get funded is the first imperative; finding ways to track, redirect and if necessary kill unsuccessful projects is the second.
- Embrace customer data, both quantitative and qualitative. Customer needs will not tell companies everything they need to know—it is a data point that must be weighed against competitive alternatives and the economic reality the company is facing. Nonetheless, it is rarely a mistake to take customer data into account.

Whilst every effort has been made to verify the accuracy of this information, neither the Economist Intelligence Unit Ltd nor the sponsors of this report can accept any responsibility for liability for reliance by any person on this report or any other information, opinions or conclusions set out herein.

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