

Managing IT in a Downturn

A Pocket Guide

by Stewart Mitchell



Managing IT in a Downturn

Copyright IT Governance Ltd
Provided by IHS Markit under license with IT Governance Ltd
No reproduction or networking permitted without license from IHS



Documents

Document Sharing Hub

Copyright IT Governance Ltd

Provided by IHS Markit under license with IT Governance Ltd

No reproduction or networking permitted without license from IHS

Full document details: ITG 2008

Managing IT in a Downturn

A Pocket Guide

STEWART MITCHELL



IT Governance Publishing Documents



Document Sharing Hub

Copyright IT Governance Ltd

Provided by IHS Markit under license with IT Governance Ltd. See Terms of Use.

No reproduction or networking permitted without license from IHS.

Full document details: ITG 2008

Every possible effort has been made to ensure that the information contained in this book is accurate at the time of going to press, and the publishers and the author cannot accept responsibility for any errors or omissions, however caused. No responsibility for loss or damage occasioned to any person acting, or refraining from action, as a result of the material in this publication can be accepted by the publisher or the author.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act 1988, this publication may only be reproduced, stored or transmitted, in any form, or by any means, with the prior permission in writing of the publisher or, in the case of reprographic reproduction, in accordance with the terms of licences issued by the Copyright Licensing Agency. Enquiries concerning reproduction outside those terms should be sent to the publishers at the following address:

IT Governance Publishing
IT Governance Limited
Unit 3, Clive Court
Bartholomew's Walk
Cambridgeshire Business Park
Ely
Cambridgeshire
CB7 4EH
United Kingdom

www.itgovernance.co.uk

© Stewart Mitchell 2008

The author has asserted the rights of the author under the Copyright, Designs and Patents Act, 1988, to be identified as the author of this work.

First published in the United Kingdom in 2008
by IT Governance Publishing.

ISBN 978-1-905356-77-5



Documents

Document Sharing Hub

Copyright IT Governance Ltd

Provided by IHS Markit under license with IT Governance Ltd. See=, User=,

No reproduction or networking permitted without license from IHS, No further sale,

Full document details: ITG 2008

PREFACE

With the world stumbling through an economic downturn, IT managers are under pressure to shave costs from the technology operations that keep organisations running smoothly. Cutbacks abound, staff cuts look likely and new projects are being back-burnered. These are the days in which IT managers really earn their bread and butter.

Against this backdrop of turbulence, we'll examine what IT executives can do to stretch budgets to maintain a useful and reliable network of IT services, and examine where new technologies, free software and licence renegotiation can make budgets work harder. Because all companies are different, the intention is not to recommend specific changes, but to raise the questions and possibilities that will provoke improvements.

Boardrooms will increasingly question the value of every IT project and managers will need to prioritise and scrap projects for the good of the company in order to keep essential operations running smoothly.

While recession means tough choices for the here and now, managers also need to plan for the recovery, when cash starts flowing through the system once more and companies look to grow and expand as the depression lifts.

We've spoken to practitioners, vendors, analysts and industry regulators to find out how to escape the fiscal doldrums.

Copyright IT Governance Ltd

ABOUT THE AUTHOR

Stewart Mitchell has been an IT journalist for more than 10 years, working across a number of publications including the *Sunday Times* and specialist magazines such as *PC Pro*, *Computer Shopper* and *PC Advisor*. He has run his own internet-based business for the last four years and regularly meets with IT business leaders.

Even in the dark, Mitchell wouldn't pretend to be a techie, but he knows an awful lot of people who are, as well as many IT executives that manage those techies. A solid understanding of the issues surrounding IT for the business coupled with an ability to translate geek speak into something slightly more understandable makes him a conduit of digestible information.

Copyright IT Governance Ltd
Provided by IHS Markit under license with IT Governance Ltd
No reproduction or networking permitted without license from IHS

CONTENTS

Introduction	8
The state of play	8
Chapter 1: Count your Chickens.....	10
Chapter 2: Sweating Resources	12
Time to upgrade desktops?	14
Putting PCs out to pasture costs money	15
Chapter 3: Cancelling Peripheral Projects.....	17
Chapter 4: Staff in the Firing Line.....	21
Potential costs	22
Guarding the gates	24
Think global.....	25
Chapter 5: Good Housekeeping.....	27
It's good to talk, cheaply.....	27
Root out duplication	27
Dig up diamond data.....	28
Squeeze suppliers.....	29
Tighten purchase controls	29
Check those invoices	30
Hit the bottlenecks	30
Chapter 6: Open Source.....	32
Big stick at negotiating table.....	35
Is open source ready for the big time?	36
Chapter 7: Boardroom Battles	38
Soft skills	40
Chapter 8: Everything's Going Virtual	42
Chapter 9: Looking Forwards to Expansion ..	46
Computing in the cloud.....	47
Choose wisely	50
SaaS	51
Appendix: Further Reading.....	55
ITG Resources.....	57

INTRODUCTION

The state of play

‘It’s a recession when your neighbour loses his job,’ said US president Harry Truman. ‘It’s a depression when you lose yours.’ As senior executives tighten the corporate purse strings, IT departments will need to justify their expense if IT workers are to avoid feeling the fullest effects of the upheaval gripping global economies.

While IT has become integral to every company doing business and can never be eliminated as a cost, with credit in short supply and revenues down, companies are putting new projects on hold and cutting out the deadwood.

‘The biggest problem of the credit crunch is that funds simply aren’t being made available for business operations,’ says Shvetank Shah, Executive Director of the Corporate Executive Board’s IT Practice. ‘And if capital expenditure dries up, IT is in the front line.’

‘It’s a bit like asking why someone robs a bank,’ said Shah. ‘It’s because that’s where the money is. When it comes to trimming capital expenditure, IT is where people make cuts.’

Even before the markets collapsed, research from the CEB showed chief information officers (CIOs) were already predicting a gloomy 2009 with spending growth at a below-inflation 2.8%.

Since then, the majority are re-evaluating budgets downwards, implementing hiring freezes and ‘61% are putting non-essential projects on hold,’ says Shah.

Introduction

As we'll discover, the key to success in this environment will (unsurprisingly) be reducing costs wherever possible, but doing so in a fashion that doesn't impact the 'lights on' services upon which the company relies.

CIOs will squeeze every ounce of life from existing hardware, software and human resources, making the most of spare capacity sloshing around from boom times.

However, although logic says 'bunker down', there will be opportunities for aggressive businesses to forge ahead with new technologies that will bring longer-term savings – and put the business on the front foot when the upturn arrives.

Competitors may have cut budgets, but following their lead lowers everyone to the same level, whereas investing now could give a competitive advantage.

'The successful businesses of tomorrow are not currently slashing their IT budgets in a knee-jerk reaction,' says Charles Andrews, CEO, Celona Technologies. 'They are investing now in order to be first out of the traps when market conditions change. The future business environment will be characterised by much shorter innovation cycles.'

Now won't be the right time for all companies to invest in these emerging technologies, such as cloud computing and Software as a Service (SaaS), but CEOs will have read the potential cost savings and want to know why your company isn't making the most of them.

CHAPTER 1: COUNT YOUR CHICKENS

Only a lunatic looks before he leaps, and it would be equally impetuous to start making plans for recession, including cutting jobs and system functionality, without first surveying the lie of the land.

Software audits should be an ongoing part of best practice, but where this isn't the case, it is essential to work out exactly what assets the IT department has, from hardware to software licences and employee headcount.

The wisdom of this is highlighted by pondering just how much you are overpaying for software, either by buying too many licences, buying products that are too advanced for the purpose, or paying for packages that are no longer in use.

'It is common to have too many licences,' says Sam Routledge, Services Director at IT management company Softcat. 'People are so worried about compliance and asset management and ensuring they are all legal, that they do not manage software as well as other assets. Lots of people buy 450 PCs and then buy 500 copies of everything. People are normally 10% over for blanket stuff.'

This can't continue at a time when IT managers are struggling to find funds for critical software. If contracts are on an annual licence – and many are – now is the time to start asking which packages you really need on each PC in the workplace.

1: Count your Chickens

It is, for example, common for companies to buy software for a whole department working on a project, but never get round to cancelling the software licences when the job is finished.

‘Often it’s a big rollout for a major project, and once it’s finished, they’re not being used any more,’ says Routledge. ‘If you’re looking at £500 on 200 machines, you see big numbers.’

‘People often renew maintenance on software they’re not using too. We’ve talked to customers who have saved £60,000 at a stroke.’

The main reason for this is that IT managers focus on using technology to do the business – they are simply not focused on contract and licence management. Stripping out waste is key.

If there is software that’s been paid for and is lying idle, check contracts to see if they can be cancelled, or park the licences that are not in use and redeploy them for new employees, or reactivate them after licences for existing users have expired.

Auditing tools will also highlight areas that cost more than they are worth, projects that are failing, and separate the tasks that are worth saving and those which should be shelved.

We’ll examine this in more detail later, but from an auditing point of view it is worth evaluating and re-evaluating project value as an ongoing process when times are hard.

CHAPTER 2: SWEATING RESOURCES

With the ready cash for IT projects thinner than a size zero supermodel, IT managers need to find ways of making ends meet, of stretching the departmental housekeeping money like some post-war rationing housewife.

This requires the sort of austerity measures that ‘back in the day’ saw socks darned to eke out a little more life from them; yet this is exactly the mentality that will impress the bean counters.

Instead of socks, however, we’re talking silicon, and how to keep it running longer to postpone major investments until the fug of recession has passed.

‘It doesn’t really matter what size the company is, most could take a year’s break from investing in new hardware and really improve what they are doing with the kit they already have,’ said IT consultant and commentator Scott Klososky. ‘If a company waits two or three years then, yes, they are in danger of being left behind, but there is so much computer equipment in most companies that it could be pressed into service for a few more months.’

‘If, rather than laying people off, you stopped investing in technology for a year, you could save a huge amount of money, and make much more use of what you have already paid for.’

‘Over the last 10 years, organisations have made huge investments in technology and in almost all

2: Sweating Resources

cases we have bought software and hardware that we only use at 50% to 60%.’

The credit crunch era is the time to start sweating those assets to ensure they are working as hard for the company as everyone else.

CRM systems, despite their weighty costs, are hardly ever fully used, with many functions still in their wrapper, Klososky says, and the same goes for productivity suites.

Pointing staff at these tasks, eking out more from existing hardware and software, gives them an obvious and visible purpose, when they might have been pulled off cancelled projects.

Other possibilities for saving cash through sweating resources include postponing software upgrades – which saves on both licensing and the new hardware needed to support the higher system requirements of newer programs.

According to a recent tip list from Gartner, companies should ‘Defer moving to Vista. If your PC hardware is holding up, consider sticking with it another year.’

The call would have made uneasy reading for Microsoft, which has already been struggling to persuade companies to upgrade from the Windows XP operating system to Vista.

Given that the next version of Windows is due out in January 2010, waiting another couple of years to upgrade systems that are currently functioning makes complete sense, allowing IT departments to skip entirely the hassle and expense of upgrading the operating system across the entire company.

2: Sweating Resources

Users that absolutely need to upgrade ageing PCs can buy downgrade Vista licences that will operate in an extended XP environment.

Time to upgrade desktops?

The regularity with which corporate desktops should be replaced splits opinion, with many organisations still implementing across-the-board replacement every two years. Others prefer to wait four years, while still others use an on-demand model that caters for the requirements of specific departments or individuals.

The Virgin Entertainment Group, for example, has some desktops in service that are five years old, while people who need top-end computing power for graphics-heavy multimedia tasks have the latest state of the art equipment available.

But while there may not be any real consensus among companies, the broader IT trends point to an expanding period between PC refreshes – which is good news if you're fighting shrinking budgets.

Many companies have settled on a three-year refresh cycle for laptops and a four-year window for desktops, says Gartner analyst Leslie Fiering, who added that the replacement cycles have increased over the past few years.

In its 2003 report on total costs of ownership for PCs, Gartner found that 'the annualised TCO for a PC kept for three years is roughly the same as for one kept for four, five or six years. However, the costs shift from direct capital outlay to indirect end-user costs.'

2: Sweating Resources

So, from an IT department point of view, pushing back new purchases is a winner, although end-users might complain about their clockwork computers and support costs may increase. Ask what individual users will be doing with their machines – and provide a system that meets those specific requirements.

Putting PCs out to pasture costs money

When computers do reach the end of their corporate life, they need to be disposed of in accordance with various laws governing both data destruction and environmental safety – so consider these costs before decommissioning.

Enterprises selling PCs after three years of ownership, receive just three per cent to five per cent of the original equipment price, but will still incur net disposal costs of between US\$85 and US\$136 per PC, depending on the disposal method.

‘Sale proceeds vary based on the quantity, method, vintage and condition of the equipment being sold. However, an important consideration is that PCs sold after four years have little economic value and still incur disposal costs,’ said Frances O’Brien, Research Director for Gartner.

Consider instead donating the equipment to a charity that will shoulder the responsibility for safe disposal in return for working PCs.

Action Aid International, for example, guarantees compliance with all UK legislation, including the WEEE directive, Data Protection Act and Environment Act and offers the service free

Documents

2: Sweating Resources

providing the equipment being donated meets the charity's minimum requirements. For lower-specified machines it charges £5 per computer unit for safe disposal.

.....

CHAPTER 3: CANCELLING PERIPHERAL PROJECTS

As IT departments batten down the hatches for the expected rough economic ride, one of the first decisions for CIOs and other decision makers is which projects are worthwhile pursuing, and which technology processes and plans are a luxury. Persuading the financiers to open their purse strings for new projects looks close to impossible.

According to the Corporate Executive Board, 61% of companies are cancelling or scaling back IT projects, and for IT managers it will be critical to build a strong case for any projects they believe to be critical.

Experts across the board expect all non-essential projects and spend to be back-burnered indefinitely – IT departments simply won't have the money to expand functions. Only projects and services that are essential for running the company will survive.

'Business leaders whose organisations are under financial stress should require the CIO to re-categorise all IT spending as "lights on" versus discretionary, indicating that certain IT spending is needed to maintain revenue and other IT spending is not,' says John Nerenberg, CEO of Nerenberg.Net. 'This re-categorisation should include salaried personnel, contractors and consultants.'

3: Cancelling Peripheral Projects

New projects (and ongoing, unfinished ventures) obviously cost money, and the necessary capital expenditure and lines of credit have been strangled with the ongoing crunch.

‘The hurdle rate – how difficult it is to get clearance for projects – is going up,’ says the CEB’s Shah. ‘Because the five to seven per cent that people are having to pay for capital is unprecedented, the landscape has changed. It was already hard to get board approval for IT projects, but this moves the goalposts.’

It’s not only new projects that are feeling the strain, either – ongoing development projects are also being re-examined and IT managers will have to justify continued support for roll-outs that have yet to deliver anything to the bottom line.

‘What to do with those half-built skyscrapers?’ asks Shah. ‘Projects that looked good a few weeks ago suddenly aren’t making the grade.’

The best way for IT executives to prepare for some difficult questions from the boss is to constantly re-evaluate projects as the landscape changes. Consultant John Nerenberg says a policy of ongoing examination of the IT project portfolio is essential, at least partly because business forecasts are changing so quickly.

‘Examine your portfolio of IT projects, realising that the business forecast may have looked very different when the budget was planned and approved,’ he wrote in the *Journal of Accountancy*. ‘Rebalance, as appropriate, the mix of business growth versus cost reduction projects. Re-examine projects that didn’t make the current

Documents