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Intelligent Cost Reduction

Transcript

Bill: The intelligent part is all around the benchmarks that we have. We have distinct benchmarks that we're able to take clients, take their processes by -- whether it's by industry or by function and we're able to compare them to our deep set of benchmarks so that instead of just cutting across the board, we can take a look at their and find out where are there areas of opportunity to reduce the cost and that's what makes it intelligent. It pinpoints where the major opportunities are by comparing it to benchmarks and best practices and identify where is the best areas of opportunity. It's not slash and burn. It's design out. So, you take a look. It could be areas that you don't want to cut because these are areas that actually add value to the business and potentially also add revenue. So, you may want to actually add to these particular areas versus take out cost. So, what you want to take a look at is what areas of the operations can you successfully take cost out of that will not impact how you generate revenue. What it also prepares an organization to do, as we come out of this cycle and we all know eventually we're going to come out of this cycle, is you're much better positioned to take advantage of the uptick. Your operations have been streamlined. You've got new technology that enables your processes. You've got the right operating model so that when the uptick does come, you are ready and you're going to take advantage of it. You're going to have a lower cost structure so when the revenue does increase you'll even have a better model to take advantage of that. We put them into three major buckets. One is process; okay the process side of it. So, process could be your planning and budgeting forecasting, it could be your financial close process, it could be your treasury and cash management, it can be your planning and allocation. So, those would be your process. Typically, then on those you get your savings, somewhere between 5 and 15 percent depending on prior work that you've done in this area. Then you get into technology. So, technology, you start getting into information integration and business performance management. You get into IT operations and applications, so you're looking at ways to get your operations more in line, everything from virtualization to automation to even things around the green initiatives. So, a lot of companies are now looking at what are some efficiencies I can get around less use of energy. So, the green is becoming a big area of cost reduction. So, that's in the IT side. And then you get into the operating model and the operating model gets into such things as shared services. So, taking the operation that may exist in a number of locations of the company and combining it into one area and getting some cost efficiency that way. To setting up centers of excellence, so same thing combining some similar operations where we can get some benefits of the expertise, but also in combining some operations. And then looking at potentially outsourcing those parts of the operations that are really non-value added that are more transactional that you don't want to get involved in as a finance executive. And that could be procurement because procurement in most cases do not add value to what the company does or what finance does and it's very transactional so you can think about outsourcing that because it doesn't have really much high value and low risk to the organization. Again, you have the three major areas where the savings are. You have the process side, which usually again 5 to 15 percent, you've got the technology can be anywhere from 10 to 25 percent, and then you've got your

operating model can be anywhere from 20 to 35-40 percent. I looked at one of our clients that the first year, first year, 18 months, that's where they got the biggest savings(?), 20 percent in that first year. Between the quick kits and some of the other quick projects we were able to do, we were able to save in the 20 percent range. And then in that 18 month to let's say three year, then you can get maybe another 10 to 20 percent and then it continues to improve and depending on what aspects. Now, the more you go to the deeper end of operating model, that's where you can get your bigger savings. Doing your shared services, doing your center of excellence, and getting into the -- looking at some of your processes, say do you really need to do this in-house versus outsourcing. That's where you can get your biggest savings. We have a program that goes -- basically a six-week program, and the reason why six weeks, a lot of companies don't want to through a six-month analysis. They want to know where the opportunities are quickly to get the cost reduction as quick as possible because we take a look at the current environment. We take their processes, we map them against our component business model, which is our proprietary information that shows basic best practices process that we have for -- by both by industry and by function. And by function I mean finance, HR, etc., and we compare the clients against our benchmarks and best practices and we identify those areas of opportunity. So, you can do that pretty quickly because again this is information that we're able to bring to the table quickly. Then what we do is after we identify those areas of opportunity, we'll take a look at it and say, okay, let's prioritize these opportunities and after we prioritize the opportunities and quantify them, we will then put together a roadmap. And what the roadmap is, is taking a look at where the -- what the opportunities are and what's the best way to implement them. So, it's basically an implementation roadmap. Then we do a business case. When you get to the implementation phase, what you're getting at that right there, that's the actual project, so you've got a couple of deliverables. One is you're taking a look at the project plans comparing to what you initially estimated to where you are. So, that's in terms of the process. Then you're looking at the benefits realization. You estimated it in the design phase how much of benefits you're going to get. So, during this phase are you getting the benefits that you thought you were going to get in that phase? So, it's looking at that. The other thing you're doing, too, is you're constantly refining, so you're looking at also continuous improvement. So, you're looking at, as you go along, are there other areas that you discovered when you went through this process that are opportunities to reduce the cost. So, it's looking at -- it's looking at benefits realization and continuous improvement. So, you want to make sure you look at it holistically. And when you look at the projects that come out of the first six-week effort, make sure that -- figure out how they all impact each other because the worse thing you want to do is to have a bunch of projects that conflict with each other. So, it's looking at that roadmap to make sure it's successful. So, when we look at our projects that we do for our clients, we make sure that we look at it across all aspects. And knowing that there's no one right way to do this thing. There are a number of ways you can do it. You kind of tackle it from a technology point first. Some clients say, let's look at technology. Some clients say let's look at it from the operating model. They

want to quickly say we need to go -- we need to outsource. And the reason why they may do that is because they've been unsuccessful in the past in doing transformation projects so they say let's just jump start it. Let's do the operating model. So, they just want to go quickly. Other companies, they want to maybe -- they're more -- there's more of a collaboration. They do the process. They start a little bit slower. But the thing is you want to look at all aspects of it. Look at the culture of the organization, say what works best in this organization first. Let's start maybe smaller, but then let's look at the bigger picture longer term to make sure we involve all aspects of change. And again, that's process, technology, and operating model. The other thing I think is very important is tracking. Being able to track what you said you were going to do against what you're actually accomplishing I think is very important because lot of companies what they do is they do the design, the analysis, the design phase. They all get excited. They go onto the projects and they miss comparing how they said they were going to do versus what they do, so it's comparison because what that does, the comparison, it gets into that mindset of continuous improvement. Making sure that you're going down a path and this is a journey that you're going to continue to improve and look for ways of bettering the company. Companies want consultants to bring renewable assets, and that's what we bring to the table. As I mentioned, the analysts that we talked to we show them this. They said this is really the best we've seen. No one else out there has that. And what it is, its assets that show -- it's proven assets that have benchmarks, that show how the operating model of companies work up again. Comparing that to the benchmarks, comparing to best practices to quickly get to the answer because companies today they want to move quickly. It's no longer the luxury of taking six months, one year to get to the actual implementation. It's too long. And that's the advantage of IBM. We can quickly get there, but not only quickly get there but get there in a rational way. Rational way where we look at those areas of opportunity where there's -- to cut versus those areas we leave alone, and matter of fact we may want to invest based on what we think there's opportunity to grow the organization, grow revenue.

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