

ACHIEVING MORE WITH LESS: TECHNOLOGY SPEND PRIORITIES OF A POST-PANDEMIC CIO

CIOs have played a critical role in managing the COVID crisis to ensure continuity of business activities. Post-pandemic, they will need to invest smarter and more cheaply and to respond to changes – positive or negative – swiftly and efficiency. In this blog, Olivier De Decker and Julien Kokocinski, Partners at Capco, explore why a more structured and flexible approach to IT spend management is now more important than ever.

Today, CIOs at many traditional banks are confronted with a complex situation. On the one hand, the pandemic is placing pressure on banks to rapidly cut costs. On the other, CIOs are expected to deliver important digital transformations and mandatory initiatives as banks adapt to the current conditions, including cybersecurity reinforcements or establishing the right infrastructure to allow people to work and collaborate remotely.

At the same time, as the uncertainty surrounding COVID-19 and its consequences continues, CIOs need to be in a position to adjust the levels of IT spend in response to evolving situations. This may mean reducing expenses in the event of a prolonged crisis or a slower-than-expected economic recovery; or alternatively, increasing spend to allow the organization, its infrastructure and project portfolio to be mobilized quickly to benefit from any recovery.

A COMPREHENSIVE AND TRANSPARENT VIEW OF COSTS VERSUS VALUE

To enable faster and more dynamic IT spend, the CIO must rely on a set of tools and data that creates an accurate and transparent view of the firm's IT landscape and project portfolio, including the cost, value and complexity of each element. Today, most banks do not have that view.

In fact, it would be fair to say that within many established financial institutions, the business and IT teams do not sufficiently understand each other. While IT managers are concerned with the cost of their network and servers, business line owners are not focused on these specific elements, but rather want to understand the headline cost of technology as it relates to their products and customers.

The CIO accordingly needs to articulate the IT budget in a way that speaks to the business in a transparent fashion. This would allow the CIO to provide clear guidance to the business on

questions relating to the cost of launching a new functionality or increasing the scope of a product, or what cost reduction will result from a certain action.

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ROI ON THE LINE

Cost-cutting is another example of where the CIO – and the business – need to have full transparency and understanding regarding immediate gains versus intrinsic value and longer-term impact. When banks need to cut costs, it is the ‘change bucket’ that usually suffers first, being deemed the softest target. Typically, change projects that heavily impact IT will be stopped, postponed or slowed down to reduce expenditure, and this also impacts the balance between the bank’s internal

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and external workforce. These adjustments need to be made in an intelligent fashion that avoids reducing resilience and hence putting the bank at risk. If CIOs do not have a clear view of return on investment (ROI) across their IT expenditure, this becomes difficult to achieve.

However, postponing or slowing down transformational initiatives means that important process improvements or customer experience innovations will not be achieved as planned, which may result in a loss of revenue in the future. Again, the CIO needs an effective solution to analyze the ROI of each investment or project and clearly assess value and impact. The CIO can then make data-backed recommendations whether to reduce or stop projects that are not vital or sufficiently revenue positive or, conversely, to increase investment in projects that will deliver a sufficient ROI.

DATA IS KEY

An effective solution should be built around a multi-dimensional analysis of data for each IT application and project as well as business lines and products (considering elements such as scope, costs, income generated and resource consumption). That analysis can then inform decisions such as whether to discontinue a poorly performing product or business line or, alternatively, to transform it through additional investment.

Overall, this focus on data will enable the CIO to strengthen IT management and address the dual challenge of optimizing and prioritizing IT spend.

HERE'S HOW CIOs CAN IMPLEMENT A MORE FLEXIBLE APPROACH TO TECHNOLOGY SPEND MANAGEMENT AND DEMONSTRATE THE VALUE OF THE IT FUNCTION.



1. ENSURE TECHNOLOGY COST TRANSPARENCY

Technology cost transparency (TCT) provides visibility into cost drivers, technology resource consumption and cost information in respect of the balance between business and IT functions. This ensures that any adjustments reflect the most appropriate level of expenditure and offers the ability to forecast demand for technology services and to simulate the impact of change.

TCT seeks to establish a mentality that orients technology by service, with defined service levels and clear pricing. It translates IT services, process expenses and resource consumption into business functions and generates understandable metrics to enable key strategic decisions, as well as providing solid governance and a continuous improvement framework.



2. MEASURE PERFORMANCE AND BUSINESS VALUE OF THE IT FUNCTION

The CIO needs to move from being a cost center to become a strategic partner within the bank. Strong CIO performance requires IT to be managed as a business, through the application of best practice and benchmarking against the market to clearly demonstrate the value of the IT function.



3. CREATE THE RIGHT CONDITIONS FOR OPTIMIZING COSTS EFFICIENTLY AND SUSTAINABLY

This involves identifying cost reduction opportunities and assessing their potential and feasibility in the context of both BAU and projects, as well as prioritizing projects that offer a quick ROI and establishing a continuous optimization culture among IT managers.



4. INCREASE ELASTICITY OF TECHNOLOGY COSTS

CIOs can help direct their banks to make better choices through technologies and contractual models that enable a transition from fixed to variable costs, such as cloud or as-a-service solutions. Reducing the ratio of fixed costs helps adjusting the cost base quickly in case of downturns.



5. INCREASE ELASTICITY OF HUMAN COSTS

Firms need to deploy the right IT skills, at the right time and in the right quantity, to meet market and customer demands. This requires building a flexible technology talent ecosystem and tapping into larger skill pools through partner networks, remote working arrangements, upskilling existing workforce, as well as continuously reviewing strategic sourcing and partnership strategies to reflect the skills and IT capabilities required to meet business needs.



6. ADOPT AGILE APPROACHES FOR MANAGING BUDGET AND PROJECT PORTFOLIO

Agile portfolio operations and Lean governance can maximize value for the business by enhancing operational excellence, ensuring compliance and increasing adaptability to change.

CONCLUSION

The need for transformation has been a constant theme for banks since the financial crisis of 2008, and the pressures arising from continuous regulatory change, increased competition and rapid technology evolution are nothing new. However, the 2020 global pandemic has radically increased these pressures and banks have no choice but to adapt to new working models and changing customer expectations.

CIOs have played an important role through the pandemic, ensuring continuity of services. Now, as they are facing significant cost constraints while at the same time looking to

accelerate strategic technology projects, CIOs need to evolve from being a cost center to becoming a valuable business partner to help banks transform their activities and the way they serve their customers.

CIOs must position themselves at the center of the dialogue between the business and IT to ensure that they speak the same language about IT costs and partner effectively to make smart investments, maximize benefits to the bank and increase ROI.

CONTACT

Contact us to find out more about tools, methods and governance models required to bring together your business and IT and to enable technology spend management and optimization that are transparent, flexible and sustainable.

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