Abstract

Faced with one of the worst economic downturns in recent times, organizations are focusing on cost reductions as never before. Infosys assessment is that IT and Operations/BPO budgets will be trimmed down significantly in 2009. Further, over time as IT and Operations/BPO costs increase, CIOs will have a clear mandate to do more with less. By examining all IT and Operations/BPO spend and prioritizing the right cost reduction areas, Infosys believes that it is possible to cut a further 30% to 40% of the costs associated with the themes identified in this article.
Introduction

With cost cutting not so much a trend as a necessity, firms are trimming budgets everywhere with Information Technology (IT) and Operations being no exception. Discretionary spend is being put on hold and there is an increased focus on value for money. Strategic initiatives have been stalled in many cases to accommodate compliance and regulatory related opportunities. With financial pressures mounting, companies are trimming IT budgets. As per an Infosys survey conducted across financial services clients, there has been a reduction of IT budgets by around 15-20% in a significant percentage of cases.

Reduced budgets impact the funds available for discretionary spending on IT projects that directly increase market share, reduce product time to market, improve customer service, or raise revenue and profit. Many organizations simply might stop investing in new projects and people during difficult times in the market. However, cuts made in discretionary spend affects IT service quality which in turn negatively impacts your business growth.

Infosys believes that an end to end approach with strategic and tactical levers would lead to significant reduction in total cost of ownership. The approach should be to restructure and reduce IT spend to decrease the cost of running the legacy environment. This will also help increase the available discretionary spending that can be used to invest in strategic initiatives to improve the competitive position.

This paper is an Infosys view point on how we have helped several clients using the tools and techniques in the financial sector.

Infosys Approach to Cost Reduction

Infosys believes that IT organizations need to follow a three step process (Reduce, Reorganize and Optimize) to deliver cost savings as outlined in Exhibit 1. These steps would bring accrued cost savings with distinct investment and implementation strategies to achieve the same.

Reduce expenses through Strategic Cost Savings opportunities

The first step involves tracking of hidden costs in the organization that add little or no value as well as decommissioning business or operations providing short term (0-1 year) cost reduction opportunities. To support this model, Infosys has an entire set of tools and framework to assist organizations across the globe to achieve those goals.

In a recent engagement, Infosys helped a large financial services firm with the identification of potential cost reduction opportunities in excess of 20% of the IT budget.
**Reorganize Assets & People**

The second step which is tactical would help in running the current operations more efficiently by using specialists only where it is required. This includes location, people and improving the usage of hardware assets. Waste might occur due to many reasons including an organization’s structure, supply chain and operations and this need to be reduced. The savings from this step would be realized in the medium to longer term (1-3 years).

Infosys has helped several clients to achieve cost reduction. We set up a testing center of excellence implementation for a leading global bank resulting in **QA cost reduction by 40% - not including downstream cost reductions that occur due to the lower total cost of ownership.**

**Optimization through an Efficient Operating Model**

Financial services companies often have too many systems with different standards and one off situations. The third step would involve realizing significant savings through standardized processes and efficient operating models. The targeted processes will be across IT & Operations/BPO. The savings from this step can be realized in the medium term (0-2 years).

For a client in the retail industry, Infosys led the IT Process Standardization effort resulting in **reduced cost of development by 10% and reduced time to market by 15%**

**Benefits of the Approach: Indicative Cost Savings**

There are six cost savings themes identified under the three cost reduction steps along with their indicative cost savings potential.

<table>
<thead>
<tr>
<th>Cost Reduction Steps</th>
<th>Themes</th>
<th>Indicative Cost Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strategic cost savings opportunities</td>
<td>Theme 1 : IT Optimization / Rationalization</td>
<td>10-30% of overall IT Cost</td>
</tr>
<tr>
<td>2. Asset &amp; People Reorganization</td>
<td>Theme 2 : Remote Infrastructure Management Services</td>
<td>25-40% of Infrastructure Management cost</td>
</tr>
<tr>
<td></td>
<td>Theme 3 : Shared Services</td>
<td>20-30% of Development / Operations cost</td>
</tr>
<tr>
<td></td>
<td>Theme 4 : Testing Centre Of Excellence (TCOE)</td>
<td>15-45% of Quality Assurance cost</td>
</tr>
<tr>
<td></td>
<td>Theme 5 : Data Centre / Server consolidation</td>
<td>30-40% of the hardware costs</td>
</tr>
<tr>
<td>3. Optimize through an efficient Operating Model</td>
<td>Theme 6 : IT &amp; Operations – Standardization of processes</td>
<td>10-15% of IT / Operations cost</td>
</tr>
</tbody>
</table>

*Exhibit 2. Indicative Cost Savings*
Theme 1: IT Optimization / Rationalization

In order to achieve sustainable long term efficiencies, IT organizations must take an end to end approach characterized by considering all sources of IT costs. This end to end approach is implemented in two phases i.e. discovering the cost reduction opportunities and then realizing the opportunities.

The first phase is finding the money which involves setting target expectations, understanding current IT costs and the key drivers of IT costs, identifying and defining achievable cost reduction opportunities, getting commitments on savings and resources to achieve the savings.

Exhibit 3. Finding the Money

The key considerations are unique IT requirements by lines of business for financial services companies, IT budgets controlled within the business including Shadow IT spending (IT related expenditure for departments other than the central IT department) or current technology landscape, geography of business and technology organizations, extent of off shoring and outsourcing already in place, what is in scope and out of scope and rules of the game.

The second phase is getting the money which involves establishing the right governance model, establishing a central Program Management office, execution and benefits management (Reporting & Risk Management).

Exhibit 4. Getting the Money

The key considerations are execution capabilities of the organization – key among them are program management, leadership, business and technology organization structure – centralized versus federated model, resources and organizational politics.

In a recent engagement, Infosys was able to help a large financial services firm with the identification of potential cost reduction opportunities in excess of 20% of the IT budget.
Theme 2: Remote Infrastructure Management Services (RIMS) Solution Framework

Infosys’ RIMS ensures that the IT infrastructure and applications are designed, managed and operated on a 24x7 basis ensuring a highly available and secure environment for transactions. RIMS has a robust and flexible service delivery model by which we can plug and play level 1 / level 2 services.

Infosys has used Remote Infrastructure management services (RIMS) to achieve 10% reduction in effort for a large death care (funeral) service provider resulting in cost savings of USD $500K.

Theme 3: Shared Services Model

The Shared Services model is aimed at delivering services in a consistent manner within an organization through standardised processes and interfaces, formalize knowledge management through a high degree of focus on specialization across business areas or technologies or both, and also provide the desired flexibility.

This resource pool is organized as clusters based on the specialisation of each resource. These clusters function under the guidance of a “Centre of Excellence” layer which drives objectives such as continuous improvement of skill depth, knowledge management, reuse, innovation, process standardization and metrics based performance management. The volume of work presents opportunities to reduce effort spillage and under-utilisation of resources by consolidating most of application development/maintenance across business units and for large scale savings as a result of “Economies of Scale”.

For example, using the IT shared services model, Infosys transitioned over 100 applications for a leading bank resulting in 30% cost reduction. In another instance using an Operations shared services model, Infosys enhanced capacity utilization by 15% by merging sub processes for a global investment bank. This was accomplished by leveraging inherent synergies between the sub processes in terms of applications used, personnel skill sets and complementing volume trends.
Theme 4: TCOE Framework

Infosys’ Testing Centre of Excellence (TCOE) framework is a comprehensive and systematic model for delivering testing as a shared service to business. Infosys proposes to use its TCOE framework to deliver cost savings of 15-45%.

Exhibit 6. TCOE Framework

Infosys helped setting up of testing center of excellence implementation for a leading global bank resulting in QA cost reduction by 40%.
Theme 5: Data Center Migration / Server Consolidation Solution

Infosys data center migration and consolidation framework helps to consolidate a data center with minimum disruption to business, the process comprising of detailed assessment, analysis and architecture definition of the target data center. For a leading telecom major, Infosys did an assessment of the Data center Hardware, Software, Application and Infrastructure and came up with the roadmap which proposed a reduction in costs of around USD 900K / year by consolidating data centers at 5 major locations in UK.

The Infosys Server Consolidation Solution achieves optimum server infrastructure by addressing: 1) Centralization of servers to a central location 2) Data consolidation to a larger repository 3) Physical consolidation / virtualization to similar platforms 4) Application consolidation by consolidating servers running multiple applications into larger platforms. Our structured approach (Assess -> Build -> Check -> Deploy) satisfies the quality standards and processes and aids in better management of risks, critical path, resource allocations and progress. Infosys was able to help a leading mining and exploration company to potentially achieve an 85% reduction in the total number of physical servers by using virtualization.
Theme 6 A: IT Standardization

Infosys IT Standardization methodology streamlines and enhances existing IT processes by using the onsite offshore delivery model. The steps would involve assessing the AS-IS state, establishing the improvement roadmap, define, pilot and deploying the process changes. For a client in the retail industry, Infosys led the IT Process Standardization effort resulting in reduced cost of development by 10% and reduced time to market by 15%.

![Exhibit 8. IT Standardization](image)

Theme 6 B: Operations Process Standardization

Operations process harmonization is another key lever that can help drive cost efficiencies. The steps involve assessment of the AS-IS state, defining the standard process backbone (~80% standardization) and identification of regional nuances and finally refinement step which increases the percentage of standardization.

![Exhibit 9. Operations Process Standardization](image)

Infosys was able to help a leading asset management company achieve a 15% reduction in headcount as part of their Operations process standardization by restructuring the highly fragmented and critical processes.
Conclusion

Using a structured 3 step approach (Reduce, Reorganize and Optimize) is the best way to capture all potential cost saving opportunities, validate them and come up with a comprehensive plan to realize significant cost savings. With the cost reduction solutions that have been described in this article, financial services companies can drive down the cost of legacy systems maintenance, IT Infrastructure and Operations/BPO while improving the time to market for customers.

References

- IT Sourcing Trends in the Current Market:

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Many of the world’s most successful organizations rely on Infosys to deliver measurable business value. Infosys provides business consulting, technology, engineering and outsourcing services to help clients in over 30 countries build tomorrow’s enterprise.

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